

WELLS FARGO ADVANTAGE MULTI-SECTOR INCOME FUND

Form N-CSRS

July 01, 2015

[Table of Contents](#)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSRS

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-21331

Wells Fargo Advantage Multi-Sector Income Fund

(Exact name of registrant as specified in charter)

525 Market St., San Francisco, CA 94105

(Address of principal executive offices) (Zip code)

C. David Messman

Wells Fargo Funds Management, LLC

525 Market St., San Francisco, CA 94105

(Name and address of agent for service)

Registrant's telephone number, including area code: 800-222-8222

Date of fiscal year end: October 31

Date of reporting period: April 30, 2015

Table of Contents

ITEM 1. REPORT TO STOCKHOLDERS

Table of Contents

**Wells Fargo Advantage
Multi-Sector Income Fund**

Semi-Annual Report

April 30, 2015

This closed-end fund is no longer offered as an initial public offering and is only offered through broker/dealers on the secondary market. A closed-end fund is not required to buy its shares back from investors upon request.

Table of Contents*Reduce clutter. Save trees.*Sign up for electronic delivery of prospectuses and shareholder reports at wellsfargo.com/advantagedelivery

Contents

| | |
|--|----|
| <u>Letter to shareholders</u> | 2 |
| <u>Performance highlights</u> | 4 |
| <u>Summary portfolio of investments*</u> | 7 |
| Financial statements | |
| <u>Statement of assets and liabilities</u> | 19 |
| <u>Statement of operations</u> | 20 |
| <u>Statement of changes in net assets</u> | 21 |
| <u>Statement of cash flows</u> | 22 |
| <u>Financial highlights</u> | 23 |
| <u>Notes to financial statements</u> | 24 |
| <u>Other information</u> | 31 |
| <u>Automatic dividend reinvestment plan</u> | 34 |
| <u>List of abbreviations</u> | 35 |

*A complete schedule of portfolio holdings as of the report date may be obtained, free of charge, by accessing the following website:

<http://a584.g.akamai.net/f/584/1326/1d/www.wellsfargoadvantagefunds.com/pdf/ann/holdings/multisectorincome.pdf> or by calling Wells Fargo Advantage Funds at **1-800-222-8222**. This complete schedule, filed on Form N-CSRS, is also available on the SEC's website at sec.gov.

The views expressed and any forward-looking statements are as of April 30, 2015, unless otherwise noted, and are those of the Fund managers and/or Wells Fargo Funds Management, LLC. Discussions of individual securities, or the markets generally, or any Wells Fargo Advantage Fund are not intended as individual recommendations. Future events or results may vary significantly from those expressed in any forward-looking statements; the views expressed are subject to change at any time in response to changing circumstances in the market. Wells Fargo Funds Management, LLC and the Fund disclaim any obligation to publicly update or revise any views expressed or forward-looking statements.

NOT FDIC INSURED ; NO BANK GUARANTEE ; MAY LOSE VALUE

Table of Contents

2 Wells Fargo Advantage Multi-Sector Income Fund

Letter to shareholders (unaudited)

Karla M. Rabusch

President

Wells Fargo Advantage Funds

Major central banks continued to inject liquidity into global banks and markets through various accommodative monetary policies, including quantitative easing.

Dear Valued Shareholder:

We are pleased to offer you this semi-annual report for the *Wells Fargo Advantage Multi-Sector Income Fund* for the six-month period that ended April 30, 2015. The period was marked by low interest rates, a decline in oil prices, moderate U.S. economic growth, and tepid growth elsewhere. Both investment-grade bonds and high-yield bonds, as measured by the Barclays U.S. Aggregate Bond Index¹, had positive returns during the reporting period, and the U.S. dollar appreciated against most other currencies.

Major central banks continued to provide stimulus.

Major central banks continued to inject liquidity into global banks and markets through various accommodative monetary policies, including quantitative easing. In the U.S., the Federal Reserve (Fed) kept its key interest rate near zero in order to support the economy and the financial system. It set expectations for it to begin normalizing monetary policy with higher target ranges for the federal funds rate by the end of 2015.

Meanwhile, European markets continued to benefit from the European Central Bank's (ECB's) willingness to maintain low interest rates. The ECB held its key rate at a historic low of 0.05%. In addition to its targeted longer-term refinancing operations that are designed to increase bank lending, the ECB expanded its quantitative easing program to include the buying of eurozone government bonds. In Japan, the Bank of Japan maintained an aggressive monetary program aimed at combating deflation.

Economic growth was moderate, and oil prices plummeted.

Economic growth advanced during the reporting period, the unemployment rate ticked lower to 5.4% as of April 2015, and inflation remained below the Fed's longer-run objective of a 2% pace. The period was also marked by

dramatically lower oil prices, which fell from more than \$80 per barrel at the beginning of the reporting period to \$59 per barrel at the end of April 2015. While lower oil prices benefited consumers of oil products, the lower prices pressured companies within the energy sector.

Longer-dated securities and higher-rated credits were top performers.

Ten-year U.S. Treasury rates declined during the period, from 2.35% at the end of October 2014 to 2.05% by the end of April 2015, benefiting both from a perceived safe-haven status as well as relative attractiveness to global investors. With the U.S. economy the furthest along its business cycle, the level of interest rates in the U.S. and Europe diverged the 10-year U.S. Treasury yield was 2.05% at the end of April 2015 compared with 0.36% for 10-year German government yields. This is largely attributed to the Fed being closer to eventually increasing interest rates while the ECB potentially needs to further increase, rather than scale back, its amount of accommodation. Further, U.S. economic activity is healthier than Europe s.

Treasury bonds with maturities greater than 20 years returned 6.91% during the six-month period that ended April 30, 2015, according to the Barclays U.S. Aggregate Bond Index. This was due, in part, to strong demand from overseas

¹ The Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment-grade, U.S. dollar denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS. You cannot invest directly in an index.

Table of Contents

Letter to shareholders (unaudited) Wells Fargo Advantage Multi-Sector Income Fund 3
investors because yields in Europe and Japan were substantially lower than U.S. yields and foreign-domiciled investors benefited from the U.S. dollar's appreciation. Longer-maturity debt across all sectors outperformed shorter-dated securities.

Investment-grade corporate bonds returned 2.35% during the six-month reporting period, according to the Barclays U.S. Aggregate Bond Index, and high-yield bonds returned 1.51% despite negative returns for energy-related sectors. Not only were many energy and mining companies negatively affected by lower oil prices, but investor trepidation about weak global growth caused investment-grade spreads and high-yield spreads to widen.

Don't let short-term uncertainty derail long-term investment goals.

Periods of uncertainty can present challenges, but experience has taught us that maintaining long-term investment goals can be an effective way to plan for the future. Although diversification cannot guarantee an investment profit or prevent losses, we believe it can be an effective way to manage investment risk and potentially smooth out overall portfolio performance. We encourage investors to know their investments and to understand that appropriate levels of risk-taking may unlock opportunities.

Thank you for choosing to invest with *Wells Fargo Advantage Funds*. We appreciate your confidence in us and remain committed to helping you meet your financial needs.

Sincerely,

Karla M. Rabusch

President

Wells Fargo Advantage Funds

Periods of uncertainty can present challenges, but experience has taught us that maintaining long-term investment goals can be an effective way to plan for the future.

For current information about your fund investments, contact your investment professional, visit our website at wellsfargoadvantagefunds.com, or call us directly at **1-800-222-8222**. We are available 24 hours a day, 7 days a week.

Table of Contents**4 Wells Fargo Advantage Multi-Sector Income Fund**

Performance highlights (unaudited)

Investment objective

The Fund seeks a high level of current income consistent with limiting its overall exposure to domestic interest-rate risk.

Adviser

Wells Fargo Funds Management, LLC

Subadvisers

First International Advisors, LLC

Wells Capital Management Incorporated

Portfolio managersAshok Bhatia, CFA²

Christopher Y. Kauffman, CFA

Michael Lee

Niklas Nordenfelt, CFA

Tony Norris

Alex Perrin

Phillip Susser

Christopher Wightman

Peter Wilson

Average annual total returns¹ (%) as of April 30, 2015

| | 6 Months | 1 Year | 5 Year | 10 Year |
|--|----------|--------|--------|---------|
| Based on market value | (0.06) | 0.07 | 5.52 | 7.41 |
| Based on net asset value (NAV) per share | 0.47 | 2.48 | 7.58 | 7.41 |

Figures quoted represent past performance, which is no guarantee of future results, and do not reflect taxes that a shareholder may pay on fund distributions or the sales of fund shares. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost.

Current performance may be lower or higher than the performance data quoted, which assumes the reinvestment of dividends and capital gains. Performance figures of the Fund do not reflect brokerage commissions that a shareholder would pay on the purchase and sale of shares. If taxes and such brokerage commissions had been reflected, performance would have been lower. To obtain performance information current to the most recent month-end, please call 1-800-222-8222.

The Fund's expense ratio for the six months ended April 30, 2015, was 1.23% which includes 0.15% of interest expense.

Comparison of NAV vs. market value³

The Fund is leveraged through a revolving credit facility and also may incur leverage by issuing preferred shares in the future. The use of leverage results in certain risks including, among others, the likelihood of greater volatility of net asset value and the market value of common shares. Foreign investments are especially volatile and can rise or fall dramatically due to differences in the political and economic conditions of the host country. These risks are generally intensified in emerging markets. Derivatives involve additional risks including interest rate risk, credit risk, the risk of improper valuation, and the risk of non-correlation to the relevant instruments that they are designed to hedge or to closely track. Bond values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. Changes in market conditions and government policies may lead to periods of heightened volatility in the bond market and reduced liquidity for certain bonds held by the Fund. In general, when interest rates rise, bond values fall and investors may lose principal value. Interest rate changes and their impact on the Fund and its share price can be sudden and unpredictable. High-yield securities have a greater risk of default and tend to be more volatile than higher-rated debt securities. This Fund is exposed to mortgage- and asset-backed securities risk.

¹Total returns based on market value are calculated assuming a purchase of common stock on the first day and sale on the last day of the period reported. Total returns based on NAV are calculated based on the NAV at the beginning of the period and end of the period. Dividends and distributions, if any, are assumed for the purposes of these calculations to be reinvested at prices obtained under the Fund's Automatic Dividend Reinvestment Plan.

² Effective June 19, 2015, Ashok Bhatia became a portfolio manager of the Fund.

³This chart does not reflect any brokerage commissions charged on the purchase and sale of the Fund's common stock. Dividends and distributions paid by the Fund have the effect of reducing the Fund's NAV.

Table of Contents

Performance highlights (unaudited)
MANAGERS DISCUSSION

Wells Fargo Advantage Multi-Sector Income Fund 5

Overview

The Fund's return based on market value was -0.06% during the six-month period that ended April 30, 2015. During the same period, the Fund's return based on its net asset value was 0.47%.

Investor demand for yield continued, which helped longer-term bonds. High-yield bonds were helped by rising stock prices and increasing prices for long-term U.S. Treasuries, in particular. Energy-related issues, which comprise about 15% of the high-yield market, suffered from lower oil prices. While energy-related issues declined about 4% over the period, the overall high-yield index, as measured by the BofA Merrill Lynch High Yield U.S. Corporates, Cash Pay, BB Rated, 1-5 Year Index, returned 1.5% over the six-month period that ended April 30, 2015. The U.S. dollar appreciated against most other currencies as central bankers eased monetary policy in the eurozone, Sweden, Denmark, and many emerging markets countries while the U.S. Federal Reserve prepared to normalize policy in the U.S.

Ten largest holdings⁵ (%) as of April 30, 2015

| | |
|--|------|
| Poland, 3.25%, 7-25-2025 | 2.61 |
| Brazil, 10.00%, 1-1-2017 | 2.40 |
| Sprint Capital Corporation, 6.88%, 11-15-2028 | 1.90 |
| Texas Competitive Electric Holdings Company LLC, 4.66%, 10-10-2015 | 1.88 |
| Mexico, 4.75%, 6-14-2018 | 1.52 |
| NGPL PipeCo LLC, 7.77%, 12-15-2037 | 1.49 |
| Republic of South Africa, 8.00%, 12-21-2018 | 1.33 |
| Thailand, 3.25%, 6-16-2017 | 1.33 |
| Dell Incorporated, 4.50%, 4-29-2020 | 1.28 |
| Colombia, 7.00%, 5-4-2022 | 1.24 |

Credit quality⁶ as of April 30, 2015**Effective maturity distribution⁷ as of April 30, 2015****Contributors to performance**

The Fund's holdings of U.S. investment-grade corporate bonds modestly helped results, while commercial mortgage-backed securities (CMBS) and nonagency residential mortgage-backed securities (MBS) contributed more significantly to performance due to strong commercial real estate fundamentals and limited supply. Within the high-yield sleeve, the Fund benefited from its allocation to specific segments of the energy sector, such as the exploration and production companies and issuers in the metals and mining sectors. In addition, a limited allocation to the highest-yielding segment of the market helped performance. Within the international sleeve, both country and currency positioning contributed to performance.

Detractors from performance

Issue selection within the mortgage/corporate credit sleeve detracted from results because certain residential MBS and CMBS securities were held back by their specific prepayment and credit-rating changes. Investment-grade corporate issues in the energy and metals and mining industries underperformed as a result of declining commodity prices. Within the high-yield sleeve, issue selection within the electric utility sector detracted from results. An allocation to the oil-field services sector also hurt results, although issue selection within this sector helped.

Management outlook

We anticipate modest spread tightening for credit and securitized bonds alongside attractive yield carry due to a benign macroeconomic environment and accommodative monetary policy. Within the mortgage and investment-grade corporate sleeve, we continue to focus on the medium-quality credit tiers of A-rated and BBB-rated securities as compelling sources of yield. Approximately 56% of this sleeve's exposure is invested in corporate credit and 43% in fixed-rate and floating-rate mortgage securities.

Table of Contents

6 Wells Fargo Advantage Multi-Sector Income Fund

Performance highlights (unaudited)

Country allocation⁸ as of April 30, 2015

With respect to the high-yield market, our base case is that we expect high-yield bonds will potentially outperform other fixed-income asset classes that are likely to be more affected by a rising rate environment, such as 10-year Treasury securities and investment-grade corporate bonds. We believe lower energy prices are generally a positive for the high-yield market with the exception of energy exploration and development companies and companies associated with them. We maintain our view that a number of imbalances are likely to remain dormant but have the potential to trigger

renewed fears of systemic risks and a related fall in all risk markets, including high yield. However, we do not think there will be a large increase in defaults in 2015 if energy prices stay low because many companies hedged part of their 2015 production and many have access to secured debt markets, which will provide them with liquidity to cover any cash-flow shortfalls. In the near term, our default outlook remains benign and supportive of high yield. Over a full cycle, we believe the best way to protect the high-yield sleeve from periodic bouts of systemic fears and rebalancing will be our continued focus on a bottom-up approach that attempts to minimize downside risk while capturing the return potential of high-yield issuers.

Outside the major developed world, both nominal and real yields offer better value than developed markets, and our long-term bias is to be underweight the bond markets of Japan and core European countries, such as Germany, France, and the Netherlands. However, the U.S. now offers better relative value, and we increased our U.S. exposure. In developed markets, the current low growth and low inflationary environment together with the likelihood that central bank rates will stay firmly anchored close to zero means that the low level of yields could persist over the long term. The aggressive fall in yields over the past several months saw yields fall toward the low end of what we believe will be a trading range that could persist for many years. Also, yields are now more vulnerable to an improved growth and inflation outlook. We reduced duration further and would likely view a rise in yields as an opportunity to lengthen duration. We have overweight currency exposure to the Brazilian real, Mexican peso, Romanian leu, Turkish lira, and South African rand. In developed markets, the Fund also holds Australian and New Zealand dollars as well as some euros. The hedge to the U.S. dollar was removed because we believe the U.S. dollar's appreciation was stretched.

⁴ The BofA Merrill Lynch High Yield U.S. Corporates, Cash Pay, BB Rated, 1-5 Year Index is an unmanaged index that generally tracks the performance of BB-rated U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market with maturities of one to five years. You cannot invest directly in an index.

⁵ The ten largest holdings, excluding cash and cash equivalents, are calculated based on the value of the investments divided by total net assets of the Fund. Holdings are subject to change and may have changed since the date specified.

⁶ The credit quality of portfolio holdings reflected in the chart is based on ratings from Standard & Poor's, Moody's Investors Service, and/or Fitch Ratings Ltd. Credit quality ratings apply to the underlying holdings of the Fund and not to the Fund itself. The percentages of the Fund's portfolio with the ratings depicted in the chart are calculated based on the total market value of fixed income securities held by the Fund. If a security was rated by all three rating agencies, the middle rating was utilized. If rated by two of three rating agencies, the lower rating was utilized, and if rated by one of the rating agencies, that rating was utilized. Standard & Poor's rates the creditworthiness of bonds on a scale of AAA (highest) to D (lowest). Ratings from A to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories. Standard & Poor's rates the creditworthiness of short-term notes on a scale SP-1 (highest) to SP-3 (lowest). Moody's rates the creditworthiness of bond on a scale of Aaa (highest) to C (lowest). Ratings Aa to B may be modified by the addition of a number 1 (highest) to 3 (lowest) to show relative standing within the ratings categories. Moody's rates the creditworthiness of short-term U.S. tax-exempt municipal securities from MIG 1/VMIG 1 (highest) to SG (lowest). Fitch rates the creditworthiness of bonds, ranging from AAA (highest) to D (lowest). Credit quality, and credit quality ratings, are subject to change.

⁷ Amounts are calculated based on the total fixed income investments of the Fund. These percentages are subject to change and may have changed since the date specified.

⁸ Amounts are calculated based on the total long-term investments of the Fund. These percentages are subject to change and may have changed since the date specified.

Table of Contents

Summary portfolio of investments April 30, 2015
(unaudited)

Wells Fargo Advantage Multi-Sector Income Fund 7

The Summary portfolio of investments shows the 50 largest portfolio holdings in unaffiliated issuers and any holdings exceeding 1% of the total net assets as of the report date. The remaining securities held are grouped as Other securities in each category.

| Security name | Interest rate | Maturity date | Principal | Value | Percent of net assets |
|---|---------------|------------------------|---------------|---------------|-----------------------|
| Agency Securities: 2.38% | | | | | |
| <i>FHLMC</i> | 0.58-8.50% | 4-25-2020 to 7-25-2048 | \$ 20,576,989 | \$ 13,739,060 | 2.14% |
| <i>Other securities</i> | | | | 1,741,175 | 0.24 |
| Total Agency Securities (Cost \$14,332,104) | | | | 15,480,235 | 2.38 |
| Asset-Backed Securities: 0.10% | | | | | |
| <i>Other securities</i> | | | | 671,273 | 0.10 |
| Total Asset-Backed Securities (Cost \$639,755) | | | | 671,273 | 0.10 |
| Common Stocks: 0.19% | | | | | |
| Materials: 0.00% | | | | | |
| Chemicals: 0.00% | | | | | |
| <i>Other securities</i> | | | | 932 | 0.00 |
| Telecommunication Services: 0.19% | | | | | |

| | | | | | |
|--|--|----------------------|-----------|------------|------|
| Diversified Telecommunication Services: 0.19% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | 1,211,636 | 0.19 |
| Total Common Stocks (Cost \$1,375,027) | | | | | |
| | | | | 1,212,568 | 0.19 |
| Corporate Bonds and Notes: 67.60% | | | | | |
| Consumer Discretionary: 10.02% | | | | | |
| Auto Components: 0.63% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | 4,135,645 | 0.63 |
| Distributors: 0.12% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | 788,000 | 0.12 |
| Diversified Consumer Services: 1.06% | | | | | |
| <i>Service Corporation International</i> | | | | | |
| 6.75-8.00 | | 4-1-2016 to 4-1-2027 | 6,033,000 | 6,890,410 | 1.06 |
| Hotels, Restaurants & Leisure: 2.77% | | | | | |
| <i>CCM Merger Incorporated 144A</i> | | | | | |
| 9.13 | | 5-1-2019 | 6,270,000 | 6,810,788 | 1.04 |
| <i>Greektown Holdings LLC 144A</i> | | | | | |
| 8.88 | | 3-15-2019 | 7,425,000 | 7,851,938 | 1.20 |
| <i>Other securities</i> | | | | | |
| | | | | 3,405,073 | 0.53 |
| | | | | 18,067,799 | 2.77 |
| Household Durables: 0.36% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | 2,350,500 | 0.36 |
| Internet & Catalog Retail: 0.13% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | 842,567 | 0.13 |
| Media: 3.86% | | | | | |
| <i>Gray Television Incorporated</i> | | | | | |
| 7.50 | | 10-1-2020 | 6,380,000 | 6,778,750 | 1.04 |

The accompanying notes are an integral part of these financial statements.

Table of Contents

8 Wells Fargo Advantage Multi-Sector Income Fund

Summary portfolio of investments April 30, 2015
(unaudited)

| Security name | Interest rate | Maturity date | Principal | Value | Percent of net assets |
|--|---------------|------------------------|--------------|---------------|-----------------------|
| Media (continued) | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | \$ 18,360,386 | 2.82% |
| | | | | 25,139,136 | 3.86 |
| Multiline Retail: 0.10% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | 636,588 | 0.10 |
| Specialty Retail: 0.99% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | 6,467,241 | 0.99 |
| Consumer Staples: 0.88% | | | | | |
| Beverages: 0.13% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | 827,525 | 0.13 |
| Food & Staples Retailing: 0.10% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | 632,661 | 0.10 |
| Food Products: 0.53% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | 3,478,894 | 0.53 |
| Tobacco: 0.12% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | 768,673 | 0.12 |
| Energy: 15.14% | | | | | |
| Energy Equipment & Services: 5.46% | | | | | |
| <i>Era Group Incorporated</i> | 7.75% | 12-15-2022 | \$ 4,425,000 | 4,336,500 | 0.67 |
| <i>NGPL PipeCo LLC</i> | 7.12-9.63 | 12-15-2017 to 6-1-2019 | 3,910,000 | 3,992,550 | 0.61 |

Edgar Filing: WELLS FARGO ADVANTAGE MULTI-SECTOR INCOME FUND - Form N-CSRS

| | | | | | |
|-----------------------------|------|------------|-----------|------------|------|
| <i>NGPL PipeCo LLC 144A</i> | 7.77 | 12-15-2037 | 8,800,000 | 9,724,000 | 1.49 |
| <i>PHI Incorporated</i> | 5.25 | 3-15-2019 | 5,175,000 | 4,993,875 | 0.77 |
| <i>Other securities</i> | | | | 12,547,613 | 1.92 |
| | | | | 35,594,538 | 5.46 |

Oil, Gas & Consumable

Fuels: 9.68%

| | | | | | |
|--|-----------|-----------------------|-----------|------------|------|
| <i>Rockies Express Pipeline LLC 144A</i> | 5.63 | 4-15-2020 | 3,625,000 | 3,833,438 | 0.59 |
| <i>Rockies Express Pipeline LLC 144A</i> | 6.88 | 4-15-2040 | 4,613,000 | 5,028,170 | 0.77 |
| <i>Rockies Express Pipeline LLC 144A</i> | 7.50 | 7-15-2038 | 2,350,000 | 2,702,500 | 0.42 |
| <i>Sabine Pass Liquefaction LLC</i> | 5.63-5.75 | 2-1-2021 to 5-15-2024 | 3,495,000 | 3,540,754 | 0.54 |
| <i>Sabine Pass Liquefaction LLC</i> | 6.25 | 3-15-2022 | 3,550,000 | 3,727,500 | 0.57 |
| <i>Sabine Pass LNG LP</i> | 6.50 | 11-1-2020 | 4,245,000 | 4,436,025 | 0.68 |
| <i>Sabine Pass LNG LP</i> | 7.50 | 11-30-2016 | 4,635,000 | 4,936,739 | 0.76 |
| <i>Other securities</i> | | | | 34,913,273 | 5.35 |
| | | | | 63,118,399 | 9.68 |

Financials: 13.96%

Banks: 0.78%

| | | | | | |
|-------------------------|--|--|--|-----------|------|
| <i>Other securities</i> | | | | 5,118,639 | 0.78 |
|-------------------------|--|--|--|-----------|------|

The accompanying notes are an integral part of these financial statements.

Table of ContentsSummary portfolio of investments April 30, 2015
(unaudited)

Wells Fargo Advantage Multi-Sector Income Fund 9

| Security name | Interest rate | Maturity date | Principal | Value | Percent of net assets |
|--|---------------|------------------------|--------------|--------------|-----------------------|
| Capital Markets: 1.16% | | | | | |
| <i>Other securities</i> | | | | \$ 7,548,013 | 1.16% |
| Consumer Finance: 4.00% | | | | | |
| <i>Navient Corporation</i> | 8.00% | 3-25-2020 | \$ 4,240,000 | 4,722,258 | 0.73 |
| <i>Springleaf Finance Corporation</i> | 5.40-8.25 | 12-1-2015 to 10-1-2023 | 6,230,000 | 6,556,088 | 1.00 |
| <i>Springleaf Finance Corporation</i> | 6.90 | 12-15-2017 | 4,550,000 | 4,834,375 | 0.74 |
| <i>Other securities</i> | | | | 9,957,444 | 1.53 |
| | | | | 26,070,165 | 4.00 |
| Diversified Financial Services: 1.70% | | | | | |
| <i>Denali Borrower LLC 144A</i> | 5.63 | 10-15-2020 | 3,510,000 | 3,751,313 | 0.58 |
| <i>Other securities</i> | | | | 7,359,714 | 1.12 |
| | | | | 11,111,027 | 1.70 |
| Insurance: 1.21% | | | | | |
| <i>Other securities</i> | | | | 7,865,335 | 1.21 |
| Real Estate Management & Development: 0.95% | | | | | |
| <i>Onex Corporation 144A</i> | 7.75 | 1-15-2021 | 3,730,000 | 3,823,250 | 0.59 |
| <i>Other securities</i> | | | | 2,363,850 | 0.36 |
| | | | | 6,187,100 | 0.95 |

REITs: 4.16%*DuPont Fabros**Technology Incorporated*

| | | | | | |
|-----------|------|-----------|-----------|-----------|------|
| <i>LP</i> | 5.88 | 9-15-2021 | 4,655,000 | 4,823,744 | 0.74 |
|-----------|------|-----------|-----------|-----------|------|

Iron Mountain

| | | | | | |
|---------------------|------|-----------|-----------|-----------|------|
| <i>Incorporated</i> | 5.75 | 8-15-2024 | 5,650,000 | 5,840,688 | 0.90 |
|---------------------|------|-----------|-----------|-----------|------|

Iron Mountain

| | | | | | |
|---------------------|-----------|------------------------|-----------|-----------|------|
| <i>Incorporated</i> | 6.00-8.38 | 10-1-2019 to 8-15-2023 | 2,978,000 | 3,159,553 | 0.48 |
|---------------------|-----------|------------------------|-----------|-----------|------|

Other securities

13,269,336 2.04

27,093,321 4.16

Health Care: 6.32%**Biotechnology: 0.12%***Other securities*

786,765 0.12

Health Care**Equipment & Supplies:****0.69%***Other securities*

4,519,738 0.69

Health Care Providers &**Services: 3.60%***Select Medical*

| | | | | | |
|--------------------|------|----------|-----------|-----------|------|
| <i>Corporation</i> | 6.38 | 6-1-2021 | 6,215,000 | 6,168,388 | 0.95 |
|--------------------|------|----------|-----------|-----------|------|

Other securities

17,278,990 2.65

23,447,378 3.60

Health Care Technology:**0.73%**

| | | | | | |
|----------------------------|-------|------------|-----------|-----------|------|
| <i>Emdeon Incorporated</i> | 11.00 | 12-31-2019 | 4,325,000 | 4,735,875 | 0.73 |
|----------------------------|-------|------------|-----------|-----------|------|

Life Sciences Tools &**Services: 0.13%***Other securities*

863,147 0.13

Pharmaceuticals: 1.05%*Other securities*

6,875,606 1.05

The accompanying notes are an integral part of these financial statements.

Table of Contents

10 Wells Fargo Advantage Multi-Sector Income Fund Summary portfolio of investments April 30, 2015
(unaudited)

| Security name | Interest rate | Maturity date | Principal | Value | Percent of net assets |
|--|---------------|---------------|--------------|--------------|-----------------------|
| Industrials: 4.55% | | | | | |
| Aerospace & Defense: 0.16% | | | | | |
| <i>Other securities</i> | | | | \$ 1,045,095 | 0.16% |
| Airlines: 0.47% | | | | | |
| <i>Other securities</i> | | | | 3,070,343 | 0.47 |
| Commercial Services & Supplies: 1.55% | | | | | |
| <i>Other securities</i> | | | | 10,128,382 | 1.55 |
| Construction & Engineering: 0.72% | | | | | |
| <i>Other securities</i> | | | | 4,698,376 | 0.72 |
| Professional Services: 0.09% | | | | | |
| <i>Other securities</i> | | | | 606,544 | 0.09 |
| Trading Companies & Distributors: 1.56% | | | | | |
| <i>Ashtead Capital Incorporated 144A</i> | 6.50% | 7-15-2022 | \$ 4,100,000 | 4,389,583 | 0.68 |
| <i>H&E Equipment Services Incorporated</i> | 7.00 | 9-1-2022 | 4,065,000 | 4,258,088 | 0.65 |
| <i>Other securities</i> | | | | 1,494,538 | 0.23 |
| | | | | 10,142,209 | 1.56 |

Information Technology:

5.15%

Communications**Equipment: 0.12%***Other securities*

754,581 0.12

Electronic Equipment, Instruments &**Components: 1.16%***Jabil Circuit Incorporated*

8.25

3-15-2018

5,275,000

6,105,813

0.94

Other securities

1,465,755

0.22

7,571,568

1.16

Internet Software &**Services: 0.36%***Other securities*

2,359,675

0.36

IT Services: 2.15%*First Data Corporation*

6.75-8.88

6-15-2019 to 11-1-2020

2,365,000

2,476,997

0.38

First Data Corporation

11.75

8-15-2021

4,125,000

4,733,438

0.73

Other securities

6,821,920

1.04

14,032,355

2.15

Semiconductors & Semiconductor**Equipment: 0.23%***Other securities*

1,471,750

0.23

Software: 0.41%*Other securities*

2,680,068

0.41

Technology Hardware, Storage &**Peripherals: 0.72%***Other securities*

4,731,507

0.72

The accompanying notes are an integral part of these financial statements.

Table of ContentsSummary portfolio of investments April 30, 2015
(unaudited)

Wells Fargo Advantage Multi-Sector Income Fund 11

| Security name | Interest rate | Maturity date | Principal | Value | Percent of net assets |
|--|---------------|---------------|--------------|------------|-----------------------|
| Materials: 1.30% | | | | | |
| Chemicals: 0.13% | | | | | |
| <i>Other securities</i> | | | | \$ 811,081 | 0.13% |
| Containers & Packaging: 0.71% | | | | | |
| <i>Other securities</i> | | | | 4,627,275 | 0.71 |
| Metals & Mining: 0.21% | | | | | |
| <i>Other securities</i> | | | | 1,386,738 | 0.21 |
| Paper & Forest Products: 0.25% | | | | | |
| <i>Other securities</i> | | | | 1,623,010 | 0.25 |
| Telecommunication Services: 8.11% | | | | | |
| Diversified Telecommunication Services: 3.46% | | | | | |
| <i>Syniverse Holdings Incorporated</i> | 9.13% | 1-15-2019 | \$ 5,330,000 | 5,010,200 | 0.77 |
| <i>Other securities</i> | | | | 17,564,272 | 2.69 |
| | | | | 22,574,472 | 3.46 |
| Wireless Telecommunication Services: 4.65% | | | | | |
| <i>Sprint Capital Corporation</i> | 6.88 | 11-15-2028 | 13,665,000 | 12,366,787 | 1.90 |
| <i>Sprint Capital Corporation</i> | 8.75 | 3-15-2032 | 515,000 | 527,875 | 0.08 |

Edgar Filing: WELLS FARGO ADVANTAGE MULTI-SECTOR INCOME FUND - Form N-CSRS

| | | | | | |
|---|-----------|-----------------------|-----------|-------------|-------|
| <i>T-Mobile USA</i> | | | | | |
| <i>Incorporated</i> | 6.13-6.84 | 4-28-2019 to 3-1-2025 | 7,315,000 | 7,679,765 | 1.17 |
| <i>Other securities</i> | | | | 9,711,159 | 1.50 |
| | | | | 30,285,585 | 4.65 |
| Utilities: 2.17% | | | | | |
| Electric Utilities: 0.72% | | | | | |
| <i>Other securities</i> | | | | 4,686,855 | 0.72 |
| Gas Utilities: 0.42% | | | | | |
| <i>Other securities</i> | | | | 2,734,369 | 0.42 |
| Independent Power & Renewable Electricity Producers: 0.80% | | | | | |
| <i>Other securities</i> | | | | 5,227,010 | 0.80 |
| Multi-Utilities: 0.23% | | | | | |
| <i>Other securities</i> | | | | 1,479,485 | 0.23 |
| Total Corporate Bonds and Notes (Cost \$422,114,924) | | | | 440,689,019 | 67.60 |
| Foreign Corporate Bonds and Notes @: 4.78% | | | | | |
| Consumer Discretionary: 0.18% | | | | | |
| Auto Components: 0.04% | | | | | |
| <i>Other securities</i> | | | | 236,091 | 0.04 |
| Distributors: 0.02% | | | | | |
| <i>Other securities</i> | | | | 138,150 | 0.02 |

The accompanying notes are an integral part of these financial statements.

Table of Contents

12 Wells Fargo Advantage Multi-Sector Income Fund Summary portfolio of investments April 30, 2015
(unaudited)

| Security name | Interest rate | Maturity date | Principal | Value | Percent of net assets |
|---|---------------|---------------|-----------|------------|-----------------------------|
| Diversified Consumer Services: | | | | | |
| 0.02% | | | | | |
| <i>Other securities</i> | | | | \$ 156,582 | 0.02% |
| | | | | | |
| Hotels, Restaurants & Leisure: | | | | | |
| 0.03% | | | | | |
| <i>Other securities</i> | | | | 161,549 | 0.03 |
| | | | | | |
| Internet & Catalog Retail: 0.05% | | | | | |
| <i>Other securities</i> | | | | 345,583 | 0.05 |
| | | | | | |
| Specialty Retail: 0.02% | | | | | |
| <i>Other securities</i> | | | | 145,249 | 0.02 |
| | | | | | |
| Consumer Staples: 0.23% | | | | | |
| Beverages: 0.08% | | | | | |
| <i>Other securities</i> | | | | 496,059 | 0.08 |
| | | | | | |
| Food & Staples Retailing: 0.02% | | | | | |
| <i>Other securities</i> | | | | 157,913 | 0.02 |
| | | | | | |
| Food Products: 0.13% | | | | | |
| <i>Other securities</i> | | | | 848,836 | 0.13 |
| | | | | | |
| Energy: 0.29% | | | | | |
| Energy Equipment & Services: | | | | | |
| 0.02% | | | | | |
| <i>Other securities</i> | | | | 110,938 | 0.02 |

Oil, Gas & Consumable Fuels:**0.27%**

| | | | | | |
|-------------------------|--|--|--|-----------|------|
| <i>Other securities</i> | | | | 1,782,949 | 0.27 |
|-------------------------|--|--|--|-----------|------|

Financials: 3.21%**Banks: 3.05%***International Bank for**Reconstruction & Development**(AUD)*

| | | | | |
|-------|-----------|-----------|-----------|------|
| 4.25% | 6-24-2025 | 5,600,000 | 4,848,615 | 0.74 |
|-------|-----------|-----------|-----------|------|

KfW (NZD)

| | | | | |
|------|-----------|-----------|-----------|------|
| 3.75 | 6-14-2018 | 3,300,000 | 2,526,852 | 0.39 |
|------|-----------|-----------|-----------|------|

KfW (TRY)

| | | | | |
|------|-----------|------------|-----------|------|
| 5.00 | 1-16-2017 | 11,400,000 | 3,956,260 | 0.61 |
|------|-----------|------------|-----------|------|

KfW (AUD)

| | | | | |
|------|-----------|-----------|-----------|------|
| 5.00 | 3-19-2024 | 1,300,000 | 1,179,292 | 0.18 |
|------|-----------|-----------|-----------|------|

Other securities

| | | | | |
|--|--|--|-----------|------|
| | | | 7,358,030 | 1.13 |
|--|--|--|-----------|------|

| | | | | |
|--|--|--|------------|------|
| | | | 19,869,049 | 3.05 |
|--|--|--|------------|------|

Diversified Financial Services:**0.16%***Other securities*

| | | | | |
|--|--|--|-----------|------|
| | | | 1,087,812 | 0.16 |
|--|--|--|-----------|------|

Industrials: 0.27%**Commercial Services & Supplies:****0.04%***Other securities*

| | | | | |
|--|--|--|---------|------|
| | | | 281,049 | 0.04 |
|--|--|--|---------|------|

Construction & Engineering:**0.03%***Other securities*

| | | | | |
|--|--|--|---------|------|
| | | | 192,288 | 0.03 |
|--|--|--|---------|------|

Transportation Infrastructure:**0.20%***Other securities*

| | | | | |
|--|--|--|-----------|------|
| | | | 1,266,312 | 0.20 |
|--|--|--|-----------|------|

The accompanying notes are an integral part of these financial statements.

Table of ContentsSummary portfolio of investments April 30, 2015
(unaudited)

Wells Fargo Advantage Multi-Sector Income Fund 13

| Security name | Interest rate | Maturity date | Principal | Value | Percent of net assets |
|--|---------------|---------------|----------------|------------|-----------------------|
| Materials: 0.11% | | | | | |
| Chemicals: 0.11% | | | | | |
| <i>Other securities</i> | | | | \$ 685,497 | 0.11% |
| Telecommunication Services: 0.40% | | | | | |
| Communications Equipment: 0.05% | | | | | |
| <i>Other securities</i> | | | | 350,092 | 0.05 |
| Diversified Telecommunication Services: 0.06% | | | | | |
| <i>Other securities</i> | | | | 396,412 | 0.06 |
| Wireless Telecommunication Services: 0.29% | | | | | |
| <i>Other securities</i> | | | | 1,862,783 | 0.29 |
| Utilities: 0.09% | | | | | |
| Water Utilities: 0.09% | | | | | |
| <i>Other securities</i> | | | | 586,689 | 0.09 |
| Total Foreign Corporate Bonds and Notes (Cost \$35,032,018) | | | | 31,157,882 | 4.78 |
| Foreign Government Bonds @: 22.84% | | | | | |
| <i>Brazil (BRL)</i> | 10.00% | 1-1-2017 | 47,925,000 | 15,655,049 | 2.40 |
| <i>Colombia (COP)</i> | 7.00 | 5-4-2022 | 18,650,000,000 | 8,097,028 | 1.24 |

Edgar Filing: WELLS FARGO ADVANTAGE MULTI-SECTOR INCOME FUND - Form N-CSRS

| | | | | | |
|--|-------|------------|----------------|-------------|-------|
| <i>Colombia (COP)</i> | 7.75 | 4-14-2021 | 5,250,000,000 | 2,477,330 | 0.38 |
| <i>Hungary (HUF)</i> | 6.75 | 11-24-2017 | 1,305,000,000 | 5,407,289 | 0.83 |
| <i>Indonesia (IDR)</i> | 7.88 | 4-15-2019 | 74,000,000,000 | 5,760,154 | 0.88 |
| <i>Indonesia (IDR)</i> | 8.38 | 3-15-2024 | 67,650,000,000 | 5,440,704 | 0.83 |
| <i>Indonesia (IDR)</i> | 10.00 | 7-15-2017 | 50,000,000,000 | 4,048,332 | 0.62 |
| <i>Malaysia (MYR)</i> | 3.26 | 3-1-2018 | 22,500,000 | 6,290,031 | 0.97 |
| <i>Malaysia (MYR)</i> | 4.18 | 7-15-2024 | 19,850,000 | 5,702,911 | 0.88 |
| <i>Mexico (MXN)</i> | 4.75 | 6-14-2018 | 151,800,000 | 9,893,933 | 1.52 |
| <i>Mexico (MXN)</i> | 10.00 | 12-5-2024 | 62,120,000 | 5,243,973 | 0.80 |
| <i>Mexico (MXN)</i> | 10.00 | 12-5-2024 | 14,100,000 | 1,190,277 | 0.18 |
| <i>New Zealand (NZD)</i> | 5.50 | 4-15-2023 | 5,625,000 | 4,943,111 | 0.76 |
| <i>Poland (PLN)</i> | 3.25 | 7-25-2025 | 58,200,000 | 17,019,359 | 2.61 |
| <i>Queensland Treasury (AUD)</i> | 5.75 | 7-22-2024 | 4,100,000 | 3,923,098 | 0.60 |
| <i>Republic of South Africa (ZAR)</i> | 7.75 | 2-28-2023 | 73,000,000 | 6,127,797 | 0.94 |
| <i>Republic of South Africa (ZAR)</i> | 8.00 | 12-21-2018 | 101,000,000 | 8,693,832 | 1.33 |
| <i>Romania (RON)</i> | 5.85 | 4-26-2023 | 23,100,000 | 6,958,890 | 1.07 |
| <i>Thailand (THB)</i> | 3.25 | 6-16-2017 | 276,500,000 | 8,677,730 | 1.33 |
| <i>Turkey (TRY)</i> | 6.30 | 2-14-2018 | 7,325,000 | 2,528,367 | 0.39 |
| <i>Turkey (TRY)</i> | 9.00 | 3-8-2017 | 13,600,000 | 5,050,513 | 0.78 |
| <i>Other securities</i> | | | | 9,776,797 | 1.50 |
| Total Foreign Government Bonds (Cost \$164,101,578) | | | | 148,906,505 | 22.84 |

Loans: 17.32%

**Consumer Discretionary:
4.67%**

Auto Components: 1.23%

| | | | | | |
|---|------|-----------|--------------|-----------|------|
| <i>Goodyear Tire & Rubber Company ±</i> | 4.75 | 4-30-2019 | \$ 4,583,333 | 4,622,246 | 0.71 |
|---|------|-----------|--------------|-----------|------|

The accompanying notes are an integral part of these financial statements.

Table of Contents

14 Wells Fargo Advantage Multi-Sector Income Fund Summary portfolio of investments April 30, 2015
(unaudited)

| Security name | Interest rate | Maturity date | Principal | Value | Percent of net assets |
|---|---------------|---------------|--------------|--------------|-----------------------|
| Auto Components (continued) | | | | | |
| <i>Other securities</i> | | | | \$ 3,410,772 | 0.52% |
| | | | | 8,033,018 | 1.23 |
| Distributors: 0.47% | | | | | |
| <i>Other securities</i> | | | | 3,035,469 | 0.47 |
| Diversified Consumer Services: 0.11% | | | | | |
| <i>Other securities</i> | | | | 700,010 | 0.11 |
| Hotels, Restaurants & Leisure: 0.37% | | | | | |
| <i>Other securities</i> | | | | 2,467,242 | 0.37 |
| Household Durables: 0.11% | | | | | |
| <i>Other securities</i> | | | | 741,082 | 0.11 |
| Leisure Products: 0.27% | | | | | |
| <i>Other securities</i> | | | | 1,742,375 | 0.27 |
| Media: 1.57% | | | | | |
| <i>TWCC Holdings Corporation ±</i> | 7.00% | 6-26-2020 | \$ 4,685,000 | 4,380,475 | 0.67 |
| <i>Other securities</i> | | | | 5,843,828 | 0.90 |
| | | | | 10,224,303 | 1.57 |
| Multiline Retail: 0.11% | | | | | |
| <i>Other securities</i> | | | | 732,171 | 0.11 |

Specialty Retail: 0.43%

| | | | | | |
|-------------------------|--|--|--|-----------|------|
| <i>Other securities</i> | | | | 2,754,058 | 0.43 |
|-------------------------|--|--|--|-----------|------|

Consumer Staples: 1.58%

Food & Staples Retailing:

0.25%

| | | | | | |
|-------------------------|--|--|--|-----------|------|
| <i>Other securities</i> | | | | 1,641,735 | 0.25 |
|-------------------------|--|--|--|-----------|------|

Household Products: 1.33%

| | | | | | |
|----------------------------|------|-----------|-----------|-----------|------|
| <i>Dell Incorporated ±</i> | 4.50 | 4-29-2020 | 8,344,375 | 8,373,747 | 1.28 |
|----------------------------|------|-----------|-----------|-----------|------|

| | | | | | |
|-------------------------|--|--|--|---------|------|
| <i>Other securities</i> | | | | 317,377 | 0.05 |
|-------------------------|--|--|--|---------|------|

| | | | | | |
|--|--|--|--|-----------|------|
| | | | | 8,691,124 | 1.33 |
|--|--|--|--|-----------|------|

Energy: 0.01%

Energy Equipment & Services:

0.01%

| | | | | | |
|-------------------------|--|--|--|--------|------|
| <i>Other securities</i> | | | | 70,332 | 0.01 |
|-------------------------|--|--|--|--------|------|

Financials: 2.09%

Capital Markets: 0.21%

| | | | | | |
|-------------------------|--|--|--|-----------|------|
| <i>Other securities</i> | | | | 1,386,501 | 0.21 |
|-------------------------|--|--|--|-----------|------|

Diversified Financial Services:

0.49%

| | | | | | |
|-------------------------|--|--|--|-----------|------|
| <i>Other securities</i> | | | | 3,166,882 | 0.49 |
|-------------------------|--|--|--|-----------|------|

The accompanying notes are an integral part of these financial statements.

Table of ContentsSummary portfolio of investments April 30, 2015
(unaudited)

Wells Fargo Advantage Multi-Sector Income Fund 15

| Security name | Value | Percent of net assets |
|---|------------|--------------------------|
| Insurance: 0.10% <i>Other securities</i> | \$ 638,831 | 0.10% |
| Real Estate Management & Development: 0.76% <i>Other securities</i> | 4,980,846 | 0.76 |
| REITs: 0.53% <i>Other securities</i> | 3,424,971 | 0.53 |
| Health Care: 1.13% | | |
| Health Care Equipment & Supplies: 0.05% <i>Other securities</i> | 316,890 | 0.05 |
| Health Care Providers & Services: 0.70% <i>Other securities</i> | 4,591,542 | 0.70 |
| Health Care Technology: 0.04% <i>Other securities</i> | 227,737 | 0.04 |
| Pharmaceuticals: 0.34% <i>Other securities</i> | 2,216,404 | 0.34 |
| Industrials: 3.14% | | |
| Aerospace & Defense: 0.53% <i>Other securities</i> | 3,420,523 | 0.53 |
| Airlines: 0.02% <i>Other securities</i> | 105,000 | 0.02 |

| | | |
|--|-----------|------|
| Commercial Services & Supplies: 1.33% | | |
| <i>Other securities</i> | 8,671,019 | 1.33 |
| Electrical Equipment: 0.15% | | |
| <i>Other securities</i> | 980,848 | 0.15 |
| Machinery: 0.68% | | |
| <i>Other securities</i> | 4,443,146 | 0.68 |
| Transportation Infrastructure: 0.43% | | |
| <i>Other securities</i> | 2,822,939 | 0.43 |
| Information Technology: 1.20% | | |
| Internet Software & Services: 0.23% | | |
| <i>Other securities</i> | 1,499,897 | 0.23 |
| Semiconductors & Semiconductor Equipment: 0.61% | | |
| <i>Other securities</i> | 3,958,229 | 0.61 |
| Technology Hardware, Storage & Peripherals: 0.36% | | |
| <i>Other securities</i> | 2,386,401 | 0.36 |

The accompanying notes are an integral part of these financial statements.

Table of Contents

16 Wells Fargo Advantage Multi-Sector Income Fund Summary portfolio of investments April 30, 2015
(unaudited)

| Security name | Interest rate | Maturity date | Principal | Value | Percent of net assets |
|---|---------------|---------------|---------------|--------------|-----------------------|
| Telecommunication Services: 1.34% | | | | | |
| Diversified Telecommunication Services: 0.97% | | | | | |
| <i>Other securities</i> | | | | \$ 6,323,426 | 0.97% |
| Wireless Telecommunication Services: 0.37% | | | | | |
| <i>Other securities</i> | | | | 2,396,554 | 0.37 |
| Utilities: 2.16% | | | | | |
| Electric Utilities: 2.09% | | | | | |
| <i>Texas Competitive Electric Holdings Company LLC ±(s)</i> | 4.66% | 10-10-2015 | \$ 20,096,983 | 12,270,414 | 1.88 |
| <i>Other securities</i> | | | | 1,341,079 | 0.21 |
| | | | | 13,611,493 | 2.09 |
| Independent Power & Renewable Electricity Producers: 0.07% | | | | | |
| <i>Other securities</i> | | | | 502,085 | 0.07 |
| Total Loans (Cost \$120,690,148) | | | | 112,905,083 | 17.32 |
| Municipal Obligations: 0.05% | | | | | |
| New York: 0.05% | | | | | |
| <i>Other securities</i> | | | | 342,771 | 0.05 |
| Total Municipal Obligations (Cost \$345,000) | | | | 342,771 | 0.05 |

Non-Agency Mortgage-Backed Securities: 7.42%

| | | |
|--|-------------------|-------------|
| <i>Other securities</i> | 48,385,276 | 7.42 |
| Total Non-Agency Mortgage-Backed Securities (Cost \$46,754,773) | 48,385,276 | 7.42 |

Preferred Stocks: 0.18%

Financials: 0.18%

Banks: 0.18%

| | | |
|--|------------------|-------------|
| <i>Other securities</i> | 1,166,832 | 0.18 |
| Total Preferred Stocks (Cost \$1,130,339) | 1,166,832 | 0.18 |

Yankee Corporate Bonds and Notes: 8.78%

Consumer Discretionary: 0.65%

Auto Components: 0.04%

| | | |
|---------------------------|---------|------|
| <i>Other securities</i> | 242,050 | 0.04 |
| Automobiles: 0.03% | | |
| <i>Other securities</i> | 199,500 | 0.03 |

Diversified Consumer Services: 0.12%

| | | |
|-------------------------|-----------|------|
| <i>Other securities</i> | 753,989 | 0.12 |
| Media: 0.46% | | |
| <i>Other securities</i> | 3,023,582 | 0.46 |

The accompanying notes are an integral part of these financial statements.

Table of Contents

Summary portfolio of investments April 30, 2015
(unaudited)

Wells Fargo Advantage Multi-Sector Income Fund 17

| Security name | Value | Percent of net assets |
|---|------------|--------------------------|
| Consumer Staples: 0.37% | | |
| Beverages: 0.12% | | |
| <i>Other securities</i> | \$ 821,542 | 0.12% |
| Food Products: 0.13% | | |
| <i>Other securities</i> | 825,000 | 0.13 |
| Tobacco: 0.12% | | |
| <i>Other securities</i> | 767,156 | 0.12 |
| Energy: 0.53% | | |
| Energy Equipment & Services: 0.12% | | |
| <i>Other securities</i> | 770,600 | 0.12 |
| Oil, Gas & Consumable Fuels: 0.41% | | |
| <i>Other securities</i> | 2,665,707 | 0.41 |
| Financials: 1.61% | | |
| Banks: 1.51% | | |
| <i>Other securities</i> | 9,866,301 | 1.51 |
| Diversified Financial Services: 0.10% | | |
| <i>Other securities</i> | 648,171 | 0.10 |
| Health Care: 0.95% | | |
| Pharmaceuticals: 0.95% | | |
| <i>Other securities</i> | 6,179,307 | 0.95 |
| Industrials: 0.41% | | |

| | | |
|--|-----------|------|
| Aerospace & Defense: 0.06% | | |
| <i>Other securities</i> | 386,588 | 0.06 |
| Commercial Services & Supplies: 0.22% | | |
| <i>Other securities</i> | 1,449,938 | 0.22 |
| Road & Rail: 0.13% | | |
| <i>Other securities</i> | 822,965 | 0.13 |
| Information Technology: 0.24% | | |
| Communications Equipment: 0.12% | | |
| <i>Other securities</i> | 801,602 | 0.12 |
| Internet Software & Services: 0.12% | | |
| <i>Other securities</i> | 784,708 | 0.12 |
| Materials: 1.37% | | |
| Containers & Packaging: 0.37% | | |
| <i>Other securities</i> | 2,413,051 | 0.37 |

The accompanying notes are an integral part of these financial statements.

Table of Contents

18 Wells Fargo Advantage Multi-Sector Income Fund Summary portfolio of investments April 30, 2015
(unaudited)

| Security name | Interest rate | Maturity date | Principal | Value | Percent of net assets |
|---|---------------|------------------------|--------------|--------------|-----------------------|
| Metals & Mining: | | | | | |
| 0.77% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | \$ 5,015,317 | 0.77% |
| | | | | | |
| Paper & Forest Products: 0.23% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | 1,521,000 | 0.23 |
| | | | | | |
| Telecommunication Services: 2.54% | | | | | |
| | | | | | |
| Diversified Telecommunication Services: 2.30% | | | | | |
| <i>Intelsat Jackson Holdings SA</i> | | | | | |
| | 5.50% | 8-1-2023 | \$ 7,775,000 | 7,318,219 | 1.12 |
| <i>Intelsat Jackson Holdings SA</i> | | | | | |
| | 7.25-7.50 | 10-15-2020 to 4-1-2021 | 3,175,000 | 3,281,638 | 0.50 |
| <i>Other securities</i> | | | | | |
| | | | | 4,417,050 | 0.68 |
| | | | | 15,016,907 | 2.30 |
| | | | | | |
| Wireless Telecommunication Services: 0.24% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | 1,570,438 | 0.24 |
| | | | | | |
| Utilities: 0.11% | | | | | |
| | | | | | |
| Electric Utilities: 0.11% | | | | | |
| <i>Other securities</i> | | | | | |
| | | | | 700,050 | 0.11 |
| Total Yankee Corporate Bonds and Notes (Cost \$57,531,189) | | | | 57,245,469 | 8.78 |

| | Yield | Shares | |
|--|-------|-----------------------|----------------------|
| Short-Term | | | |
| Investments: 2.56% | | | |
| Investment Companies: | | | |
| 2.56% | | | |
| <i>Wells Fargo Advantage</i> | | | |
| <i>Cash Investment Money</i> | | | |
| <i>Market Fund, Select Class</i> | | | |
| <i>(l)(u)##</i> | 0.11 | 16,707,871 | 16,707,871 2.56 |
| Total Short-Term | | | |
| Investments (Cost | | | |
| \$16,707,871) | | | |
| | | 16,707,871 | 2.56 |
| Total investments in securities (Cost | | 874,870,784 | 134.20 |
| \$880,754,726) * | | | |
| <i>Other assets and</i> | | (222,966,242) | (34.20) |
| <i>liabilities, net</i> | | | |
| Total net assets | | \$ 651,904,542 | 100.00% |

144A The security may be resold in transactions exempt from registration, normally to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933.

@ Foreign bond principal is denominated in the local currency of the issuer.

± Variable rate investment. The rate shown is the rate in effect at period end.

(s) The security is currently in default with regards to scheduled interest and/or principal payments. The Fund has stopped accruing interest on the security.

(l) The security represents an affiliate of the Fund as defined in the Investment Company Act of 1940.

(u) The rate represents the 7-day annualized yield at period end.

All or a portion of this security is segregated for when-issued securities and unfunded loans.

* Cost for federal income tax purposes is \$884,748,992 and unrealized gains (losses) consists of:

| | |
|-------------------------|----------------|
| Gross unrealized gains | \$ 31,312,454 |
| Gross unrealized losses | (41,190,662) |
| Net unrealized losses | \$ (9,878,208) |

The accompanying notes are an integral part of these financial statements.

Table of Contents

Statement of assets and liabilities April 30, 2015
(unaudited) Wells Fargo Advantage Multi-Sector Income Fund 19

Assets

| | |
|---|----------------|
| Investments | |
| In unaffiliated securities, at value (cost \$864,046,855) | \$ 858,162,913 |
| In affiliated securities, at value (cost \$16,707,871) | 16,707,871 |
| Total investments, at value (cost \$880,754,726) | 874,870,784 |
| Cash | 41,363 |
| Foreign currency, at value (cost \$1,092,501) | 1,112,630 |
| Receivable for investments sold | 1,719,874 |
| Principal paydown receivable | 15,433 |
| Receivable for interest | 12,213,160 |
| Unrealized gains on forward foreign currency contracts | 914,409 |
| Prepaid expenses and other assets | 30,299 |
| Total assets | 890,917,952 |

Liabilities

| | |
|---|-----------------------|
| Dividends payable | 4,066,719 |
| Payable for investments purchased | 3,087,782 |
| Unrealized losses on forward foreign currency contracts | 1,348,184 |
| Secured borrowing payable | 229,972,158 |
| Advisory fee payable | 398,044 |
| Administration fee payable | 36,186 |
| Accrued expenses and other liabilities | 104,337 |
| Total liabilities | 239,013,410 |
| Total net assets | \$ 651,904,542 |

NET ASSETS CONSIST OF

| | |
|--|-----------------------|
| Paid-in capital | \$ 761,839,820 |
| Overdistributed net investment income | (5,661,044) |
| Accumulated net realized losses on investments | (97,865,638) |
| Net unrealized losses on investments | (6,408,596) |
| Total net assets | \$ 651,904,542 |

NET ASSET VALUE PER SHARE

Based on \$651,904,542 divided by 42,055,000 shares issued and outstanding (100,000,000 shares authorized) \$15.50

The accompanying notes are an integral part of these financial statements.

Table of Contents

20 Wells Fargo Advantage Multi-Sector Income Fund Statement of operations six months ended April 30, 2015
(unaudited)

Investment income

| | |
|---|---------------|
| Interest (net of foreign interest withholding taxes of \$112,067) | \$ 26,869,681 |
| Dividends | 45,106 |
| Income from affiliated securities | 6,940 |
| Total investment income | 26,921,727 |

Expenses

| | |
|-----------------------------|------------|
| Advisory fee | 2,387,096 |
| Administration fee | 217,009 |
| Custody and accounting fees | 109,192 |
| Professional fees | 38,409 |
| Shareholder report expenses | 43,125 |
| Trustees' fees and expenses | 6,573 |
| Transfer agent fees | 17,547 |
| Interest expense | 477,742 |
| Secured borrowing fees | 634,891 |
| Other fees and expenses | 23,422 |
| Total expenses | 3,955,006 |
| Net investment income | 22,966,721 |

REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS**Net realized gains (losses) on:**

| | |
|--|-------------|
| Unaffiliated securities | (8,513,026) |
| Forward foreign currency contract transactions | 3,066,698 |
| Net realized losses on investments | (5,446,328) |

Net change in unrealized gains (losses) on:

| | |
|---|--------------|
| Unaffiliated securities | (18,065,012) |
| Forward foreign currency contract transactions | (16,132) |
| Net change in unrealized gains (losses) on investments | (18,081,144) |
| Net realized and unrealized gains (losses) on investments | (23,527,472) |
| Net decrease in net assets resulting from operations | \$ (560,751) |

The accompanying notes are an integral part of these financial statements.

Table of Contents

| Statement of changes in net assets | Wells Fargo Advantage Multi-Sector Income Fund 21 | |
|---|---|--------------------------------|
| | Six months ended April 30, 2015 (unaudited) | Year ended October 31, 2014 |
| Operations | | |
| Net investment income | \$ 22,966,721 | \$ 47,904,280 |
| Net realized losses on investments | (5,446,328) | (10,992,976) |
| Net change in unrealized gains (losses) on investments | (18,081,144) | 985,722 |
| Net increase (decrease) in net assets resulting from operations | (560,751) | 37,897,026 |
| Distributions to shareholders from | | |
| Net investment income | (24,539,093) | (38,167,582) |
| Tax basis return of capital | 0 | (12,298,418) |
| Total distributions to shareholders | (24,539,093) | (50,466,000) |
| Total decrease in net assets | (25,099,844) | (12,568,974) |
| Net assets | | |
| Beginning of period | 677,004,386 | 689,573,360 |
| End of period | \$ 651,904,542 | \$ 677,004,386 |
| Overdistributed net investment income | \$ (5,661,044) | \$ (4,088,672) |

The accompanying notes are an integral part of these financial statements.

Table of Contents

22 Wells Fargo Advantage Multi-Sector Income Fund Statement of cash flows six months ended April 30, 2015
(unaudited)

Cash flows from operating activities:

Net decrease in net assets resulting from operations \$ (560,751)

Adjustments to reconcile net decrease in net assets from operations to net cash provided by operating activities:

Purchases of investment securities (190,913,367)

Proceeds from the sales of investment securities 180,537,595

Paydowns 1,922,199

Amortization 14,515

Proceeds from sales of short-term investment securities, net 6,774,628

Decrease in receivable for investments sold 1,217,521

Increase in principal paydown receivable (3,993)

Decrease in interest receivable 1,071,208

Increase in prepaid expenses and other assets (3,832)

Decrease in payable for investments purchased (973,829)

Decrease in advisory fee payable (13,097)

Decrease in administration fee payable (1,190)

Decrease in accrued expenses and other liabilities (149,761)

Net realized losses on investments 7,881,108

Net change in unrealized gains (losses) on investments 18,081,144

Net cash provided by operating activities 24,880,098

Cash flows from financing activities:

Cash distributions paid (24,677,875)

Decrease in secured borrowing payable (391,321)

Net cash used in financing activities (25,069,196)

Net decrease in cash (189,098)

Cash (including foreign currency):

Beginning of period \$ 1,343,091

End of period \$ 1,153,993

Supplemental cash disclosure

Cash paid for interest \$ 548,823

The accompanying notes are an integral part of these financial statements.

Table of Contents

Financial highlights
(For a share outstanding throughout each period)

Wells Fargo Advantage Multi-Sector Income Fund 23

| | Six months ended | Year ended October 31 | | | | |
|--|-------------------|-----------------------|----------------|----------------|----------------|---------------------|
| | April 30, 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (unaudited) | | | | | |
| Net asset value, beginning of period | \$16.10 | \$16.40 | \$17.01 | \$16.16 | \$16.67 | \$15.61 |
| Net investment income | 0.55 ¹ | 1.14 ¹ | 1.18 | 1.16 | 1.11 | 1.21 |
| Net realized and unrealized gains (losses) on investments | (0.57) | (0.24) | (0.59) | 0.89 | (0.39) | 1.17 |
| Distributions to preferred shareholders from net investment income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | (0.02) ¹ |
| Total from investment operations | (0.02) | 0.90 | 0.59 | 2.05 | 0.72 | 2.36 |
| Distributions to common shareholders from | | | | | | |
| Net investment income | (0.58) | (0.91) | (1.20) | (1.20) | (1.23) | (1.30) |
| Tax basis return of capital | 0.00 | (0.29) | 0.00 | 0.00 | 0.00 | 0.00 |
| Total distributions to common shareholders | (0.58) | (1.20) | (1.20) | (1.20) | (1.23) | (1.30) |
| Net asset value, end of period | \$15.50 | \$16.10 | \$16.40 | \$17.01 | \$16.16 | \$16.67 |
| Market value, end of period | \$13.59 | \$14.19 | \$14.47 | \$16.54 | \$14.97 | \$16.18 |

| | | | | | | |
|--|----------------|--------------|----------------|---------------|--------------|--------------------|
| Total return based on market value² | (0.06)% | 6.55% | (5.44)% | 19.33% | 0.33% | 28.44% |
| Ratios to average net assets (annualized) | | | | | | |
| Gross expenses ³ | 1.23% | 1.21% | 1.24% | 1.24% | 1.14% | 1.58% |
| Net expenses ³ | 1.23% | 1.21% | 1.24% | 1.24% | 1.14% | 1.18% |
| Net investment income ³ | 7.15% | 6.95% | 7.04% | 7.13% | 6.75% | 7.63% ⁴ |
| Supplemental data | | | | | | |
| Portfolio turnover rate | 17% | 41% | 40% | 78% | 35% | 70% |
| Net assets end of period (000s omitted) | \$651,905 | \$677,004 | \$689,573 | \$715,368 | \$679,497 | \$701,110 |
| Borrowings outstanding, end of period (000s omitted) | \$230,000 | \$230,000 | \$230,000 | \$230,000 | \$230,000 | \$230,000 |
| Asset coverage per \$1,000 of borrowing, end of period | \$3,834 | \$3,944 | \$3,998 | \$4,110 | \$3,954 | \$4,048 |

¹ Calculated based upon average shares outstanding

² Total return is calculated assuming a purchase of common stock on the first day and sale on the last day of the period reported. Dividends and distributions, if any, are assumed for purposes of these calculations to be reinvested at prices obtained under the Fund's Automatic Dividend Reinvestment Plan. Total return does not reflect brokerage commissions that a shareholder would pay on the purchase and sale of shares. Returns for periods of less than one year are not annualized.

³ Ratios include interest expense relating to interest associated with borrowings and/or leverage transactions as follows:

| | |
|---|-------|
| Six months ended April 30, 2015 (unaudited) | 0.15% |
| Year ended October 31, 2014 | 0.07% |
| Year ended October 31, 2013 | 0.07% |
| Year ended October 31, 2012 | 0.11% |
| Year ended October 31, 2011 | 0.09% |
| Year ended October 31, 2010 | 0.08% |

⁴ The net investment income ratio reflects any distributions paid to preferred shareholders.

The accompanying notes are an integral part of these financial statements.

Table of Contents

24 Wells Fargo Advantage Multi-Sector Income Fund

Notes to financial statements (unaudited)

1. ORGANIZATION

The *Wells Fargo Advantage Multi-Sector Income Fund* (the *Fund*) was organized as a statutory trust under the laws of the state of Delaware on April 10, 2003 and is registered as a diversified closed-end management investment company under the Investment Company Act of 1940, as amended. As an investment company, the Fund follows the accounting and reporting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 946, *Financial Services - Investment Companies*.

2. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies, which are consistently followed in the preparation of the financial statements of the Fund, are in conformity with U.S. generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities valuation

All investments are valued each business day as of the close of regular trading on the New York Stock Exchange (generally 4 p.m. Eastern Time).

Debt securities are valued at the evaluated bid price provided by an independent pricing service or, if a reliable price is not available, the quoted bid price from an independent broker-dealer.

Equity securities that are listed on a foreign or domestic exchange or market are valued at the official closing price or, if none, the last sales price. If no sale occurs on the primary exchange or market that day, the prior day's price will be deemed stale and a fair value price will be determined in accordance with the Fund's Valuation Procedures.

Equity securities that are not listed on a foreign or domestic exchange or market, but have a public trading market, are valued at the quoted bid price from an independent broker-dealer that the Management Valuation Team of Wells Fargo Funds Management, LLC (Funds Management) has determined is an acceptable source.

The values of securities denominated in foreign currencies are translated into U.S. dollars at rates provided by an independent foreign currency pricing source at a time each business day specified by the Management Valuation Team.

Investments in registered open-end investment companies are valued at net asset value.

Investments which are not valued using any of the methods discussed above are valued at their fair value, as determined in good faith by the Board of Trustees of the Fund. The Board of Trustees has established a Valuation Committee comprised of the Trustees and has delegated to it the authority to take any actions regarding the valuation of portfolio securities that the Valuation Committee deems necessary or appropriate, including determining the fair value of portfolio securities, unless the determination has been delegated the Management Valuation Team. The Board of Trustees retains the authority to make or ratify any valuation decisions or approve any changes to the Valuation Procedures as it deems appropriate. On a quarterly basis, the Board of Trustees receives reports on any valuation

actions taken by the Valuation Committee or the Management Valuation Team which may include items for ratification.

Valuations of fair valued securities are compared to the next actual sales price when available, or other appropriate market values, to assess the continued appropriateness of the fair valuation methodologies used. These securities are fair valued on a day-to-day basis, taking into consideration changes to appropriate market information and any significant changes to the inputs considered in the valuation process until there is a readily available price provided on an exchange or by an independent pricing service. Valuations received from an independent pricing service or independent broker-dealer quotes are periodically validated by comparisons to most recent trades and valuations provided by other independent pricing services in addition to the review of prices by the adviser and/or subadviser. Unobservable inputs used in determining fair valuations are identified based on the type of security, taking into consideration factors utilized by market participants in valuing the investment, knowledge about the issuer and the current market environment.

Foreign currency translation

The accounting records of the Fund are maintained in U.S. dollars. The values of other assets and liabilities denominated in foreign currencies are translated into U.S. dollars at rates provided by an independent foreign currency pricing source at a time each business day specified by the Management Valuation Team. Purchases and sales of securities, and income and expenses are converted at the rate of exchange on the respective dates of such transactions. Net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest and foreign

Table of Contents

Notes to financial statements (unaudited) Wells Fargo Advantage Multi-Sector Income Fund 25
withholding taxes recorded and the U.S. dollar equivalent of the amounts actually paid or received. Net unrealized foreign exchange gains and losses arise from changes in the fair value of assets and liabilities other than investments in securities resulting from changes in exchange rates. The changes in net assets arising from changes in exchange rates and the changes in net assets resulting from changes in market prices of securities are not separately presented. Such changes are included in with net realized and unrealized gains or losses from investments.

Forward foreign currency contracts

The accounting records of the Fund are maintained in U.S. dollars. The values of other assets and liabilities denominated in foreign currencies are translated into U.S. dollars at rates provided by an independent foreign currency pricing source at a time each business day specified by the Management Valuation Team. Purchases and sales of securities, and income and expenses are converted at the rate of exchange on the respective dates of such transactions. Net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest and foreign withholding taxes recorded and the U.S. dollar equivalent of the amounts actually paid or received. Net unrealized foreign exchange gains and losses arise from changes in the fair value of assets and liabilities other than investments in securities resulting from changes in exchange rates. The changes in net assets arising from changes in exchange rates and the changes in net assets resulting from changes in market prices of securities are not separately presented. Such changes are included in with net realized and unrealized gains or losses from investments.

When-issued transactions

The Fund may purchase securities on a forward commitment or when-issued basis. The Fund records a when-issued transaction on the trade date and will segregate assets in an amount at least equal in value to the Fund's commitment to purchase when-issued securities. Securities purchased on a when-issued basis are marked-to-market daily and the Fund begins earning interest on the settlement date. Losses may arise due to changes in the market value of the underlying securities or if the counterparty does not perform under the contract.

Loans

The Fund may invest in direct debt instruments which are interests in amounts owed to lenders by corporate or other borrowers. The loans pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. Investments in loans may be in the form of participations in loans or assignments of all or a portion of loans from third parties. When the Fund purchases participations, it generally has no rights to enforce compliance with terms of the loan agreement with the borrower. As a result, the Fund assumes the credit risk of both the borrower and the lender that is selling the participation. When the Fund purchases assignments from lenders, it acquires direct rights against the borrower on the loan and may enforce compliance by the borrower with the terms of the loan agreement. Loans may include fully funded term loans or unfunded loan commitments, which are contractual obligations for future funding.

Security transactions and income recognition

Securities transactions are recorded on a trade date basis. Realized gains or losses are recorded on the basis of identified cost.

Interest income is accrued daily and bond discounts are accreted and premiums are amortized daily based on the effective interest method. To the extent debt obligations are placed on non-accrual status, any related interest income may be reduced by writing off interest receivables when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. If the issuer subsequently resumes interest payments or when the collectability of interest is reasonably assured, the debt obligation is removed from non-accrual status.

Dividend income is recognized on the ex-dividend date, except for certain dividends from foreign securities, which are recorded as soon as the custodian verifies the ex-dividend date.

Income from foreign securities is recorded net of foreign taxes withheld where recovery of such taxes is not assured.

Distributions to shareholders

Distributions to shareholders from net investment income and net realized gains, if any, are recorded on the ex-dividend date. Such distributions are determined in conformity with federal income tax regulations, which may differ in amount or character from net investment income and realized gains recognized for purposes of U.S. generally accepted accounting principles.

Table of Contents

26 Wells Fargo Advantage Multi-Sector Income Fund

Notes to financial statements (unaudited)

Federal and other taxes

The Fund intends to continue to qualify as a regulated investment company by distributing substantially all of its investment company taxable income and any net realized capital gains (after reduction for capital loss carryforwards) sufficient to relieve it from all, or substantially all, federal income taxes. Accordingly, no provision for federal income taxes was required.

The Fund's income and federal excise tax returns and all financial records supporting those returns for the prior three fiscal years are subject to examination by the federal and Delaware revenue authorities. Management has analyzed the Fund's tax positions taken on federal, state, and foreign tax returns for all open tax years and does not believe that there are any uncertain tax positions that require recognition of a tax liability.

Capital loss carryforwards that do not expire are required to be utilized prior to capital loss carryforwards that expire. As of October 31, 2014, capital loss carryforwards available to offset future net realized capital gains were as follows through the indicated expiration dates:

| 2017 | No expiration | |
|--------------|---------------|-------------|
| | Short-term | Long-term |
| \$86,701,155 | \$172,085 | \$1,368,853 |

3. FAIR VALUATION MEASUREMENTS

Fair value measurements of investments are determined within a framework that has established a fair value hierarchy based upon the various data inputs utilized in determining the value of the Fund's investments. The three-level hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to significant unobservable inputs (Level 3). The Fund's investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The inputs are summarized into three broad levels as follows:

- n Level 1 quoted prices in active markets for identical securities
- n Level 2 other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, use of amortized cost, etc.)
- n Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodologies used for valuing investments in securities are not necessarily an indication of the risk associated with investing in those securities.

Table of Contents

Notes to financial statements (unaudited) Wells Fargo Advantage Multi-Sector Income Fund 27
The following is a summary of the inputs used in valuing the Fund's assets and liabilities as of April 30, 2015:

| | Quoted prices (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|--|----------------------------|--|---|-----------------------|
| Assets | | | | |
| Investments in: | | | | |
| Agency securities | \$ 0 | \$ 15,480,235 | \$ 0 | \$ 15,480,235 |
| Asset-backed securities | 0 | 671,273 | 0 | 671,273 |
| Common stocks | | | | |
| <i>Materials</i> | 932 | 0 | 0 | 932 |
| <i>Telecommunication services</i> | 1,211,636 | 0 | 0 | 1,211,636 |
| Corporate bonds and notes | 0 | 440,689,019 | 0 | 440,689,019 |
| Foreign corporate bonds and notes | 0 | 31,157,882 | 0 | 31,157,882 |
| Foreign government bonds | 0 | 148,906,505 | 0 | 148,906,505 |
| Loans | 0 | 93,907,506 | 18,997,577 | 112,905,083 |
| Municipal obligations | 0 | 342,771 | 0 | 342,771 |
| Non-agency mortgage backed securities | 0 | 48,385,276 | 0 | 48,385,276 |
| Preferred stocks | | | | |
| <i>Financials</i> | 1,166,832 | 0 | 0 | 1,166,832 |
| Yankee corporate bonds and notes | 0 | 56,513,052 | 732,417 | 57,245,469 |
| Short-term investments | | | | |
| <i>Investment companies</i> | 16,707,871 | 0 | 0 | 16,707,871 |
| | 19,087,271 | 836,053,519 | 19,729,994 | 874,870,784 |
| Forward foreign currency contracts | 0 | 914,409 | 0 | 914,409 |
| Total assets | \$ 19,087,271 | \$ 836,967,928 | \$ 19,729,994 | \$ 875,785,193 |
| Liabilities | | | | |
| Forward foreign currency contracts | \$ 0 | \$ 1,348,184 | \$ 0 | \$ 1,348,184 |
| Total liabilities | \$ 0 | \$ 1,348,184 | \$ 0 | \$ 1,348,184 |

Forward foreign currency contracts are reported at their unrealized gains (losses) at measurement date, which represents the change in the contract's value from trade date. All other assets and liabilities are reported at their market value at measurement date.

The Fund recognizes transfers between levels within the fair value hierarchy at the end of the reporting period. At April 30, 2015, the Fund did not have any transfers into/out of Level 1 or Level 2.

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value:

| | Loans | Yankee corporate bonds and notes | Total |
|--|---------------|--|---------------|
| Balance as of October 31, 2014 | \$ 14,853,033 | \$ 0 | \$ 14,853,033 |
| Accrued discounts (premiums) | 4,114 | 0 | 4,114 |
| Realized gains (losses) | 1,634 | 0 | 1,634 |
| Change in unrealized gains (losses) | 135,099 | 0 | 135,099 |
| Purchases | 5,436,500 | 0 | 5,436,500 |
| Sales | (1,500,192) | 0 | (1,500,192) |
| Transfer into Level 3 | 4,687,789 | 732,417 | 5,420,206 |
| Transfer out of Level 3 | (4,620,400) | 0 | (4,620,400) |
| Balance as of April 30, 2015 | \$ 18,997,577 | \$ 732,417 | \$ 19,729,994 |
| Change in unrealized gains (losses) relating to securities still held at April 30, 2015 | \$ 109,506 | \$ 0 | \$ 109,506 |

Table of Contents

28 Wells Fargo Advantage Multi-Sector Income Fund Notes to financial statements (unaudited)
The investment type categorized above was valued using indicative broker quotes. These indicative broker quotes are considered Level 3 inputs. Quantitative unobservable inputs used by the brokers are often proprietary and not provided to the Fund and therefore the disclosure that would address these inputs is not included above.

4. TRANSACTIONS WITH AFFILIATES

Advisory fee

Funds Management, an indirect wholly owned subsidiary of Wells Fargo & Company (Wells Fargo) is the adviser to the Fund and is entitled to receive a fee at an annual rate of 0.55% of the Fund's average daily total assets. Total assets consist of net assets of the Fund plus borrowings or other leverage for investment purposes to the extent excluded in calculating net assets.

Funds Management has retained the services of certain subadvisers to provide daily portfolio management to the Fund. The fees for subadvisory services are borne by Funds Management. Wells Capital Management Incorporated, an affiliate of Funds Management and an indirect wholly owned subsidiary of Wells Fargo, is a subadviser to the Fund and is entitled to receive a fee from Funds Management at an annual rate of 0.30% of the Fund's average daily total assets. First International Advisors, LLC, an affiliate of Funds Management and an indirect wholly owned subsidiary of Wells Fargo, is also a subadviser to the Fund and is entitled to receive a fee from Funds Management at an annual rate of 0.10% of the Fund's average daily total assets.

Administration fee

Funds Management also serves as the administrator to the Fund, providing the Fund with a wide range of administrative services necessary to the operation of the Fund. Funds Management is entitled to receive an annual administration fee from the Fund equal to 0.05% of the Fund's average daily total assets.

5. CAPITAL SHARE TRANSACTIONS

The Fund has authorized capital of 100,000,000 shares with no par value. For the six months ended April 30, 2015 and year ended October 31, 2014, the Fund did not issue any shares.

6. BORROWING AND LEVERAGE TRANSACTIONS

The Fund has borrowed approximately \$230 million through a revolving credit facility administered by a major financial institution (the Facility). The Facility has a commitment amount of \$230 million with no specific contract expiration date but the Facility can be terminated upon a 180 days' notice. The Fund is charged interest at London Interbank Offered Rate (LIBOR) plus 0.70% and a commitment fee of 0.30% of the average daily unutilized amount of the commitment which may be waived if the amount drawn on the Facility is over 75% of the committed amount.

Prior to March 6, 2015, the Fund borrowed under a secured debt financing agreement and was charged interest at a rate based on the rates of the commercial paper notes issued to fund the Fund's borrowings or at LIBOR plus 1.00%. The Fund had pledged all of its assets to secure the borrowings and paid both a usage fee and a commitment fee each at an annual rate of 0.40% of the daily average outstanding principal amount of borrowings.

At April 30, 2015, the Fund had borrowings outstanding in the amount of \$229,972,158 (including accrued interest and commitment fees payable). The borrowing fees on the Statement of Operations of \$634,891 represents the usage and commitment fees for the six months ended April 30, 2015. During the six months ended April 30, 2015, an effective interest rate of 0.42% was incurred on the borrowings and the Fund incurred interest expense in the amount of \$477,742, representing 0.15% of the Fund's average daily net assets.

7. INVESTMENT PORTFOLIO TRANSACTIONS

Purchases and sales of investments, excluding U.S. government obligations (if any) and short-term securities, for the six months ended April 30, 2015 were \$180,035,979 and \$149,562,150, respectively.

As of April 30, 2015, the Fund had unfunded term loan commitments of \$2,664,213.

8. DERIVATIVE TRANSACTIONS

During the six months ended April 30, 2015, the Fund entered into forward foreign currency contracts for economic hedging purposes.

Table of Contents

Notes to financial statements (unaudited)

Wells Fargo Advantage Multi-Sector Income Fund 29

At April 30, 2015, the Fund had forward foreign currency contracts outstanding as follows:

Forward foreign currency contracts to buy:

| Exchange date | Counterparty | Contracts to receive | | U.S. value at April 30, 2015 | In exchange for U.S. \$ | Unrealized gains (losses) |
|---------------|-------------------|----------------------|-----|------------------------------|-------------------------|---------------------------|
| 5-4-2015 | State Street Bank | 94,450,000 | MXN | \$ 6,156,303 | \$ 6,307,806 | \$ (151,503) |
| 5-12-2015 | State Street Bank | 22,225,000 | MYR | 6,236,408 | 6,176,699 | 59,709 |
| 5-12-2015 | State Street Bank | 10,200,000 | MYR | 2,862,154 | 2,809,917 | 52,237 |
| 6-9-2015 | State Street Bank | 32,500,000 | PLN | 9,017,458 | 8,763,207 | 254,251 |
| 6-9-2015 | State Street Bank | 11,000,000 | PLN | 3,052,063 | 2,963,402 | 88,661 |
| 6-9-2015 | State Street Bank | 29,150,000 | RON | 7,394,473 | 7,389,475 | 4,998 |
| 6-12-2015 | State Street Bank | 8,300,000 | BRL | 2,718,714 | 2,544,529 | 174,185 |
| 6-12-2015 | State Street Bank | 37,300,000 | ZAR | 3,115,945 | 3,106,133 | 9,812 |
| 6-12-2015 | State Street Bank | 5,350,000 | BRL | 1,752,424 | 1,727,032 | 25,392 |
| 6-12-2015 | State Street Bank | 12,900,000 | TRY | 4,772,016 | 4,714,373 | 57,643 |
| 6-22-2015 | State Street Bank | 100,000,000 | THB | 3,029,235 | 3,063,444 | (34,209) |

Forward foreign currency contracts to sell:

| Exchange Date | Counterparty | Contracts to deliver | | U.S. value at April 30, 2015 | In exchange for U.S. \$ | Unrealized gains (losses) |
|---------------|-------------------|----------------------|-----|------------------------------|-------------------------|---------------------------|
| 5-4-2015 | State Street Bank | 94,450,000 | MXN | \$ 6,156,303 | \$ 6,268,791 | \$ 112,488 |
| 5-12-2015 | State Street Bank | 4,600,000,000 | COP | 1,929,773 | 1,908,080 | (21,693) |
| 6-9-2015 | State Street Bank | 1,500,000,000 | HUF | 5,539,209 | 5,392,095 | (147,114) |
| 6-9-2015 | State Street Bank | 20,200,000 | PLN | 5,604,697 | 5,429,779 | (174,918) |
| 6-9-2015 | State Street Bank | 23,300,000 | PLN | 6,464,824 | 6,206,060 | (258,764) |
| 6-9-2015 | State Street Bank | 29,150,000 | RON | 7,394,473 | 7,213,382 | (181,091) |
| 6-12-2015 | State Street Bank | 37,300,000 | ZAR | 3,115,945 | 3,010,128 | (105,817) |
| 6-12-2015 | State Street Bank | 13,650,000 | BRL | 4,471,137 | 4,198,062 | (273,075) |
| 6-12-2015 | State Street Bank | 3,665,000 | TRY | 1,355,770 | 1,381,326 | 25,556 |
| 6-12-2015 | State Street Bank | 14,450,000 | TRY | 5,345,398 | 5,394,875 | 49,477 |

The Fund had average contract amounts of \$29,547,201 and \$60,867,669 in forward foreign currency contracts to buy and forward foreign currency contracts to sell, respectively, during the six months ended April 30, 2015.

The fair value, realized gains or losses and change in unrealized gains or losses, if any, on derivative instruments are reflected in the appropriate financial statements.

For certain types of derivative transactions, the Fund has entered into International Swaps and Derivatives Association, Inc. master agreements (ISDA Master Agreements) or similar agreements with approved counterparties. The ISDA Master Agreements or similar agreements may have requirements to deliver/deposit securities or cash to/with an exchange or broker-dealer as collateral and allows the Fund to offset, with each counterparty, certain derivative financial instrument s assets and/or liabilities with collateral held or pledged. Collateral requirements differ by type of derivative. Collateral or margin requirements are set by the broker or exchange clearing house for exchange traded derivatives while collateral terms are contract specific for over-the-counter traded derivatives. Cash collateral that has been pledged to cover obligations of the Fund under ISDA Master Agreements or similar agreements, if any, will be reported separately in the Statement of Assets and Liabilities. Securities pledged as collateral, if any, for the same purpose are noted in the Portfolio of Investments. With respect to balance sheet offsetting, absent an event of default by the counterparty or a termination of the agreement, the reported amounts of financial assets and financial liabilities in the Statement of Assets

Table of Contents

30 Wells Fargo Advantage Multi-Sector Income Fund Notes to financial statements (unaudited) and Liabilities are not offset across transactions between the Fund and the applicable counterparty. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by derivative type, including any collateral exposure, is as follows:

| Derivative type | Counterparty | Gross amounts of assets in the Statement of Assets and Liabilities | Amounts subject to netting agreements | Collateral received | Net amount of assets |
|------------------------------------|-------------------|--|---------------------------------------|---------------------|----------------------|
| Forward foreign currency contracts | State Street Bank | \$914,409* | \$ (914,409) | \$ 0 | \$ 0 |

* Amount represents net unrealized gains.

| Derivative type | Counterparty | Gross amounts of liabilities in the Statement of Assets and Liabilities | Amounts subject to netting agreements | Collateral pledged | Net amount of liabilities |
|------------------------------------|-------------------|---|---------------------------------------|--------------------|---------------------------|
| Forward foreign currency contracts | State Street Bank | \$1,348,184** | \$ (914,409) | \$ 0 | \$ 433,775 |

** Amount represents net unrealized losses.

9. INDEMNIFICATION

Under the Fund's organizational documents, the officers and Trustees have been granted certain indemnification rights against certain liabilities that may arise out of performance of their duties to the Fund. Additionally, in the normal course of business, the Fund may enter into contracts with service providers that contain a variety of indemnification clauses. The Fund's maximum exposure under these arrangements is dependent on future claims that may be made against the Fund and, therefore, cannot be estimated.

10. SUBSEQUENT DISTRIBUTIONS

The Fund declared the following distributions to common shareholders:

| Declaration date | Record date | Payable date | Per share amount |
|------------------|---------------|--------------|------------------|
| April 24, 2015 | | June 1, 2015 | \$0.0967 |
| May 20, 2015 | May 13, 2015 | July 1, 2015 | 0.0967 |
| | June 15, 2015 | | |

These distributions are not reflected in the accompanying financial statements. The final determination of the source of all distributions is subject to change and made after the Fund's tax year-end.

Table of Contents

Other information (unaudited)

Wells Fargo Advantage Multi-Sector Income Fund 31

PROXY VOTING INFORMATION

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available, upon request, by calling **1-800-222-8222**, visiting our website at **wellsfargoadvantagefunds.com**, or visiting the SEC website at sec.gov. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available on the Fund's website at **wellsfargoadvantagefunds.com** or by visiting the SEC website at sec.gov.

ANNUAL MEETING OF SHAREHOLDERS

On February 9, 2015, an Annual Meeting of Shareholders for the Fund was held to consider the following proposal. The results of the proposal are indicated below.

Proposal 1 Election of trustees:

| | | | |
|--------------|----------|---------------------|------------|
| Shares voted | For | William R. Ebsworth | 36,553,968 |
| Shares voted | Withhold | | 931,096 |
| Shares voted | For | Jane A. Freeman | 36,514,137 |
| Shares voted | Withhold | | 970,927 |
| Shares voted | For | Judith M. Johnson | 36,549,698 |
| Shares voted | Withhold | | 935,366 |
| Shares voted | For | Donald C. Willeke | 36,543,064 |
| Shares voted | Withhold | | 942,000 |

PORTFOLIO HOLDINGS INFORMATION

The complete portfolio holdings for the Fund are publicly available monthly on the Fund's website (**wellsfargoadvantagefunds.com**), on a one-month delayed basis. The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q, which is available by visiting the SEC website at sec.gov. In addition, the Fund's Form N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC, and at regional offices in New York City, at 233 Broadway, and in Chicago, at 175 West Jackson Boulevard, Suite 900. Information about the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Table of Contents

32 Wells Fargo Advantage Multi-Sector Income Fund

Other information (unaudited)

BOARD OF TRUSTEES AND OFFICERS

The following table provides basic information about the Board of Trustees (the Trustees) and Officers of the Fund. Each of the Trustees and Officers listed below acts in identical capacities for each fund in the Wells Fargo Advantage family of funds, which consists of 134 mutual funds comprising the Wells Fargo Funds Trust, Wells Fargo Variable Trust, Wells Fargo Master Trust, and four closed-end funds, including the Fund (collectively the Fund Complex). The mailing address of each Trustee and Officer is 525 Market Street, 12th Floor, San Francisco, CA 94105. The Board of Trustees is classified into three classes of which one is elected annually. Each Trustee serves a three-year term concurrent with the class from which the Trustee is elected. Each Officer serves an indefinite term.

Independent Trustees

| Name and year of birth | Position held and length of service | Principal occupations during past five years or longer | Other directorships during past five years |
|------------------------------------|-------------------------------------|--|--|
| William R. Ebsworth (Born 1957) | Trustee, since 2015* | Retired. From 1984 to 2013, equities analyst, portfolio manager, research director at Fidelity Management and Research Company and retired in 2013 as Chief Investment Officer of Fidelity Strategic Advisers, Inc. in Boston, Tokyo, and Hong Kong where he led a team of investment professionals managing client assets. Prior thereto, Board member of Hong Kong Securities Clearing Co., Hong Kong Options Clearing Corp., the Thailand International Fund, Ltd., Fidelity Investments Life Insurance Company, and Empire Fidelity Investments Life Insurance Company. Mr. Ebsworth is an Adjunct Lecturer, Finance, at Babson College and a Chartered Financial Analyst. | Asset Allocation Trust |
| Jane A. Freeman (Born 1953) | Trustee, since 2015* | Retired. From 2012 to 2014 and 1999 to 2008, Chief Financial Officer of Scientific Learning Corporation. From 2008 to 2012, Ms. Freeman provided consulting services related to strategic business projects. Prior to 1999, Portfolio Manager at Rockefeller & Co. and Scudder, Stevens & Clark. Board member of the Harding Loevner Funds from 1996 to 2014, serving as both Lead Independent Director and chair of the Audit Committee. Board member of the Russell Exchange Traded Funds Trust from 2011 to 2012 and the chair of the Audit Committee. Ms. Freeman is a Chartered Financial Analyst (inactive), Chair of Taproot Foundation (non-profit organization) and a | Asset Allocation Trust |

| | | | |
|-----------------------------------|--|--|--|
| | | Board Member of Ruth Bancroft Garden (non-profit organization). | |
| Peter G. Gordon (Born 1942) | Trustee, since 2010; Chairman, since 2010 | Co-Founder, Retired Chairman, President and CEO of Crystal Geysers Water Company. Trustee Emeritus, Colby College. | Asset Allocation Trust |
| Isaiah Harris, Jr. (Born 1952) | Trustee, since 2010 | Retired. Chairman of the Board of CIGNA Corporation since 2009, and Director since 2005. From 2003 to 2011, Director of Deluxe Corporation. Prior thereto, President and CEO of BellSouth Advertising and Publishing Corp. from 2005 to 2007, President and CEO of BellSouth Enterprises from 2004 to 2005 and President of BellSouth Consumer Services from 2000 to 2003. Emeritus member of the Iowa State University Foundation Board of Governors. Emeritus Member of the Advisory Board of Iowa State University School of Business. Advisory Board Member, Palm Harbor Academy. Mr. Harris is a certified public accountant. | CIGNA Corporation; Asset Allocation Trust |
| Judith M. Johnson (Born 1949) | Trustee, since 2010; Audit Committee Chairman, since 2010 | Retired. Prior thereto, Chief Executive Officer and Chief Investment Officer of Minneapolis Employees Retirement Fund from 1996 to 2008. Ms. Johnson is an attorney, certified public accountant and a certified managerial accountant. | Asset Allocation Trust |
| David F. Larcker (Born 1950) | Trustee, since 2010 | James Irvin Miller Professor of Accounting at the Graduate School of Business, Stanford University, Morgan Stanley Director of the Center for Leadership Development and Research and Senior Faculty of The Rock Center for Corporate Governance since 2006. From 2005 to 2008, Professor of Accounting at the Graduate School of Business, Stanford University. Prior thereto, Ernst & Young Professor of Accounting at The Wharton School, University of Pennsylvania from 1985 to 2005. | Asset Allocation Trust |

Table of Contents

| Other information (unaudited) | | | Wells Fargo Advantage Multi-Sector Income Fund | 33 |
|---------------------------------|-------------------------------------|---|--|----|
| Name and year of birth | Position held and length of service | Principal occupations during past five years or longer | Other directorships during past five years | |
| Olivia S. Mitchell (Born 1953) | Trustee, since 2010 | International Foundation of Employee Benefit Plans Professor, Wharton School of the University of Pennsylvania since 1993. Director of Wharton's Pension Research Council and Boettner Center on Pensions & Retirement Research, and Research Associate at the National Bureau of Economic Research. Previously, Cornell University Professor from 1978 to 1993. | Asset Allocation Trust | |
| Timothy J. Penny (Born 1951) | Trustee, since 2010 | President and Chief Executive Officer of Southern Minnesota Initiative Foundation, a non-profit organization, since 2007 and Senior Fellow at the Humphrey Institute Policy Forum at the University of Minnesota since 1995. Member of the Board of Trustees of NorthStar Education Finance, Inc., a non-profit organization, since 2007. | Asset Allocation Trust | |
| Michael S. Scofield (Born 1943) | Trustee, since 2003 | Served on the Investment Company Institute's Board of Governors and Executive Committee from 2008-2011 as well the Governing Council of the Independent Directors Council from 2006-2011 and the Independent Directors Council Executive Committee from 2008-2011. Chairman of the IDC from 2008-2010. Institutional Investor (Fund Directions) Trustee of Year in 2007. Trustee of the Evergreen Funds complex (and its predecessors) from 1984 to 2010. Chairman of the Evergreen Funds from 2000-2010. Former Trustee of the Mentor Funds. Retired Attorney, Law Offices of Michael S. Scofield. | Asset Allocation Trust | |
| Donald C. Willeke (Born 1940) | Trustee, since 2010 | Principal of the law firm of Willeke & Daniels. General Counsel of the Minneapolis Employees Retirement Fund from 1984 until its consolidation into the Minnesota Public Employees Retirement Association on June 30, 2010. Director and Vice Chair of The Tree Trust (non-profit corporation). Director of the American Chestnut Foundation (non-profit corporation). | Asset Allocation Trust | |

*William R. Ebsworth and Jane A. Freeman each became a Trustee effective January 1, 2015.

Officers

| Name and year of birth | Position held and length of service | Principal occupations during past five years or longer |
|------------------------|-------------------------------------|--|
|------------------------|-------------------------------------|--|

| | | |
|--|---|--|
| Karla M. Rabusch (Born 1959) | President, since 2010 | Executive Vice President of Wells Fargo Bank, N.A. and President of Wells Fargo Funds Management, LLC since 2003. |
| Jeremy DePalma ¹ (Born 1974) | Treasurer, since 2012 | Senior Vice President of Wells Fargo Funds Management, LLC since 2009. Senior Vice President of Evergreen Investment Management Company, LLC from 2008 to 2010. Vice President, Evergreen Investment Services, Inc. from 2004 to 2007. Head of the Fund Reporting and Control Team within Fund Administration from 2005 to 2010. |
| C. David Messman (Born 1960) | Secretary, since 2010; Chief Legal Officer, since 2010 | Senior Vice President and Secretary of Wells Fargo Funds Management, LLC since 2001. Assistant General Counsel of Wells Fargo Bank, N.A. since 2013 and Vice President and Managing Counsel of Wells Fargo Bank N.A. from 1996 to 2013. |
| Debra Ann Early (Born 1964) | Chief Compliance Officer, since 2010 | Senior Vice President of Wells Fargo Funds Management, LLC since 2007 and Chief Compliance Officer from 2007 to 2014. Chief Compliance Officer of Parnassus Investments from 2005 to 2007. Chief Financial Officer of Parnassus Investments from 2004 to 2007 and Senior Audit Manager of PricewaterhouseCoopers LLP from 1998 to 2004. |
| David Berardi (Born 1975) | Assistant Treasurer, since 2009 | Vice President of Wells Fargo Funds Management, LLC since 2009. Vice President of Evergreen Investment Management Company, LLC from 2008 to 2010. Assistant Vice President of Evergreen Investment Services, Inc. from 2004 to 2008. Manager of Fund Reporting and Control for Evergreen Investment Management Company, LLC from 2004 to 2010. |

¹Jeremy DePalma acts as Treasurer of 60 funds and Assistant Treasurer of 73 funds in the Fund Complex.

Table of Contents**34 Wells Fargo Advantage Multi-Sector Income Fund Automatic dividend reinvestment plan
AUTOMATIC DIVIDEND REINVESTMENT PLAN**

All common shareholders are eligible to participate in the Automatic Dividend Reinvestment Plan (the Plan). Pursuant to the Plan, unless a common shareholder is ineligible or elects otherwise, all cash dividends and capital gains distributions are automatically reinvested by Computershare Trust Company, N.A., as agent for shareholders in administering the Plan (Plan Agent), in additional common shares of the Fund. Whenever the Fund declares an ordinary income dividend or a capital gain dividend (collectively referred to as dividends) payable either in shares or in cash, nonparticipants in the Plan will receive cash, and participants in the Plan will receive the equivalent in common shares. The shares are acquired by the Plan Agent for the participant s account, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized common shares from the Fund (newly issued common shares) or (ii) by purchase of outstanding common shares on the open-market (open-market purchases) on the NYSE Amex or elsewhere. If, on the payment date for any dividend or distribution, the net asset value per share of the common shares is equal to or less than the market price per common share plus estimated brokerage commissions (market premium), the Plan Agent will invest the amount of such dividend or distribution in newly issued shares on behalf of the participant. The number of newly issued common shares to be credited to the participant s account will be determined by dividing the dollar amount of the dividend by the net asset value per share on the date the shares are issued, provided that the maximum discount from the then current market price per share on the date of issuance may not exceed 5%. If on the dividend payment date the net asset value per share is greater than the market value (market discount), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participant in open-market purchases. There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent s open-market purchases in connection with the reinvestment of dividends. The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends. All correspondence concerning the Plan should be directed to the Plan Agent at P.O. Box 30170, College Station, Texas 77842-3170 or by calling 1-800-730-6001.

Table of Contents

List of abbreviations Wells Fargo Advantage Multi-Sector Income Fund 35
 The following is a list of common abbreviations for terms and entities that may have appeared in this report.

| | |
|--------|---|
| ACA | ACA Financial Guaranty Corporation |
| ADR | American depositary receipt |
| ADS | American depositary shares |
| AGC | Assured Guaranty Corporation |
| AGM | Assured Guaranty Municipal |
| Ambac | Ambac Financial Group Incorporated |
| AMT | Alternative minimum tax |
| AUD | Australian dollar |
| BAN | Bond anticipation notes |
| BHAC | Berkshire Hathaway Assurance Corporation |
| BRL | Brazilian real |
| CAB | Capital appreciation bond |
| CAD | Canadian dollar |
| CCAB | Convertible capital appreciation bond |
| CDA | Community Development Authority |
| CDO | Collateralized debt obligation |
| CHF | Swiss franc |
| COP | Columbian Peso |
| CLP | Chilean peso |
| DKK | Danish krone |
| DRIVER | Derivative inverse tax-exempt receipts |
| DW&P | Department of Water & Power |
| DWR | Department of Water Resources |
| ECFA | Educational & Cultural Facilities Authority |
| EDA | Economic Development Authority |
| EDFA | Economic Development Finance Authority |
| ETF | Exchange-traded fund |
| EUR | Euro |
| FDIC | Federal Deposit Insurance Corporation |
| FFCB | Federal Farm Credit Banks |
| FGIC | Financial Guaranty Insurance Corporation |
| FHA | Federal Housing Administration |
| FHLB | Federal Home Loan Bank |
| FHLMC | Federal Home Loan Mortgage Corporation |
| FICO | The Financing Corporation |
| FNMA | Federal National Mortgage Association |
| FSA | Farm Service Agency |
| GBP | Great British pound |
| GDR | Global depositary receipt |
| GNMA | Government National Mortgage Association |
| GO | General obligation |

| | |
|----------|---|
| HCFR | Healthcare facilities revenue |
| HEFA | Health & Educational Facilities Authority |
| HEFAR | Higher education facilities authority revenue |
| HFA | Housing Finance Authority |
| HFFA | Health Facilities Financing Authority |
| HKD | Hong Kong dollar |
| HUD | Department of Housing and Urban Development |
| HUF | Hungarian forint |
| IDA | Industrial Development Authority |
| IDAG | Industrial Development Agency |
| IDR | Indonesian rupiah |
| IEP | Irish pound |
| JPY | Japanese yen |
| KRW | Republic of Korea won |
| LIBOR | London Interbank Offered Rate |
| LIFER | Long Inverse Floating Exempt Receipts |
| LIQ | Liquidity agreement |
| LLC | Limited liability company |
| LLLP | Limited liability limited partnership |
| LLP | Limited liability partnership |
| LOC | Letter of credit |
| LP | Limited partnership |
| MBIA | Municipal Bond Insurance Association |
| MFHR | Multifamily housing revenue |
| MSTR | Municipal securities trust receipts |
| MTN | Medium-term note |
| MUD | Municipal Utility District |
| MXN | Mexican peso |
| MYR | Malaysian ringgit |
| National | National Public Finance Guarantee Corporation |
| NGN | Nigerian naira |
| NOK | Norwegian krone |
| NZD | New Zealand dollar |
| PCFA | Pollution Control Financing Authority |
| PCL | Public Company Limited |
| PCR | Pollution control revenue |
| PFA | Public Finance Authority |
| PFFA | Public Facilities Financing Authority |
| PFOTER | Puttable floating option tax-exempt receipts |
| PIK | Payment-in-kind |
| plc | Public limited company |
| PLN | Polish zloty |
| PUTTER | Puttable tax-exempt receipts |
| R&D | Research & development |
| Radian | Radian Asset Assurance |
| RAN | Revenue anticipation notes |
| RDA | Redevelopment Authority |
| RDFA | Redevelopment Finance Authority |
| REIT | Real estate investment trust |
| ROC | Reset option certificates |
| RON | Romanian leu |

| | |
|--------|--|
| RUB | Russian ruble |
| SAVRS | Select auction variable rate securities |
| SBA | Small Business Authority |
| SDR | Swedish depositary receipt |
| SEK | Swedish krona |
| SFHR | Single-family housing revenue |
| SFMR | Single-family mortgage revenue |
| SGD | Singapore dollar |
| SPA | Standby purchase agreement |
| SPDR | Standard & Poor's Depositary Receipts |
| SPEAR | Short Puttable Exempt Adjustable Receipts |
| STRIPS | Separate trading of registered interest and principal securities |
| TAN | Tax anticipation notes |
| TBA | To be announced |
| THB | Thai baht |
| TIPS | Treasury inflation-protected securities |
| TRAN | Tax revenue anticipation notes |
| TRY | Turkish lira |
| TTFA | Transportation Trust Fund Authority |
| TVA | Tennessee Valley Authority |
| ZAR | South African rand |

Table of Contents

This page is intentionally left blank.

Table of Contents

Transfer Agent, Registrar, Shareholder Servicing

Agent & Dividend Disbursing Agent

Computershare Trust Company, N.A.

P.O. Box 30170

College Station, TX 77842-3170

1-800-730-6001

Website: wellsfargoadvantagefunds.com

Wells Fargo Funds Management, LLC, is a subsidiary of Wells Fargo & Company and is an affiliate of Wells Fargo & Company's broker/dealer subsidiaries. Certain material contained in this report may be considered marketing material and has been reviewed by Wells Fargo Funds Distributor, LLC, Member FINRA/SIPC, an affiliate of Wells Fargo & Company.

NOT FDIC INSURED ; NO BANK GUARANTEE ; MAY LOSE VALUE

© 2015 Wells Fargo Funds Management, LLC. All rights reserved.

233646 06-15

SMSI/SAR159 04-15

Table of Contents

ITEM 2. CODE OF ETHICS

Not applicable.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

Not applicable.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Not applicable.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS

Not applicable.

ITEM 6. INVESTMENTS

Wells Fargo Advantage Multi-Sector Income Fund included a Summary Portfolio of Investments under Item 1. A Portfolio of Investments for Wells Fargo Advantage Multi-Sector Income Fund is filed under this Item.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not applicable.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES
PORTFOLIO MANAGERS

Ashok Bhatia, CFA

Ashok Bhatia is co-lead of the Wells Capital Management Customized Fixed Income team and senior portfolio manager. He joined Wells Capital Management from Balyasny Asset Management where he oversaw a discretionary global macro portfolio for 5 years and prior to this also worked at Stark Investments for 5 years as co-head of global macro, fixed income, emerging markets and commodities strategies. Ashok left Strong Capital Management in 2004 where he was a portfolio manager on what is now the WellsCap Customized Fixed Income Team (Strong was acquired by Wells Fargo on 1/1/05 and the investment teams became part of Wells Capital Management). Ashok previously worked for Morgan Stanley and LaSalle Advisors, focusing on commercial and residential mortgage backed securities trading. He earned his bachelor's degree from the University of Michigan and MBA from the University of Chicago. Ashok has earned the right to use the CFA designation.

Christopher Y. Kauffman, CFA

Mr. Kauffman is a portfolio manager for the Wells Capital Management Fixed Income team. He joined WellsCap from Tattersall Advisory Group (TAG), where he served in a similar role since 2003. He began his investment industry career in 1997 as an investment officer for NISA Investment Advisors, where he was responsible for MBS analysis, risk assessment, and trading. He earned a bachelor's degree in finance and economics and a master's degree in business administration with an emphasis in finance from Washington University in St. Louis. He has earned the right to use the CFA designation and is a member of the St. Louis Society of Financial Analysts and the CFA Institute.

Michael Lee

Mr. Lee is a senior portfolio manager with the First International Advisors team at Wells Capital Management. Mike is one of five senior members of the investment team that forms the Senior Strategy Team. His responsibilities include the day-to-day management and implementation of portfolio strategies. He joined WellsCap from Evergreen Investments, where he served in a

Table of Contents

similar role since 1992. Prior to this, he worked at Northern Trust Co. Earlier, he held investment positions at JPMorganChase and National Westminster Bank. Michael began his investment industry career in 1982. He is a member of the U.K. Society of Investment Professionals.

Anthony Norris

Mr. Norris is a managing director and senior portfolio manager with the First International Advisors team at Wells Capital Management. Tony is one of five senior members of the investment team that forms the Senior Strategy Team. His responsibilities include developing investment strategies, macro-portfolio allocation, portfolio positioning, and risk management. He joined WellsCap from Evergreen Investments, where he served in a similar role since 1990. Previously, he spent several years in banking, with particular emphasis on foreign exchange. Tony served in senior executive positions at Reserve Asset Managers and Gillett Brothers Fund Management. He began his investment industry career in 1967 at Wallace Brothers Bank. He is a member of the Society of Technical Analysts and is an associate of the International Federation of Technical Analysts.

Niklas Nordenfelt, CFA

Mr. Nordenfelt is currently managing director, senior portfolio manager with the Sutter High Yield Fixed Income team at Wells Capital Management. Niklas joined the Sutter High Yield Fixed Income team of Wells Capital Management in February 2003 as investment strategist. Niklas began his investment career in 1991 and has managed portfolios ranging from quantitative-based and tactical asset allocation strategies to credit driven portfolios. Previous to joining Sutter, Niklas was at Barclays Global Investors (BGI) from 1996-2002 where he was a principal. At BGI, he worked on their international and emerging markets equity strategies after having managed their asset allocation products. Prior to this, Niklas was a quantitative analyst at Fidelity and a portfolio manager and group leader at Mellon Capital Management. He earned a bachelor's degree in economics from the University of California, Berkeley, and has earned the right to use the CFA designation.

Alex Perrin

Mr. Perrin is a senior portfolio manager with the First International Advisors team at Wells Capital Management. Alex is one of five senior members of the investment team that forms the Senior Strategy Team. His responsibilities include developing investment strategies, macro-portfolio allocation, portfolio positioning, and risk management. He joined First International Advisors in 1992. Alex earned a bachelor's degree in mathematics and computer science from Hull University in the U.K. He is a member of the Society of Technical Analysts and an Associate Member of the U.K. Society of Investment Professionals.

Philip Susser

Mr. Susser is currently managing director, senior portfolio manager, and co-head of the Sutter High Yield Fixed Income team at Wells Capital Management. Philip joined the Sutter High Yield Fixed Income team as a senior research analyst in 2001. He has extensive research experience in the cable/satellite, gaming, hotels, restaurants, printing/publishing, telecom, REIT, lodging and distressed sectors. Philip's investment experience began in 1995 spending three years as a securities lawyer at Cahill Gordon and Shearman & Sterling representing underwriters and issuers of high yield debt. Later, Philip evaluated venture investment opportunities for MediaOne Ventures before joining Deutsche Bank as a research analyst. He received his bachelor's degree in economics from the University of Pennsylvania and his law degree from the University of Michigan Law School.

Christopher Wightman

Mr. Wightman is a senior portfolio manager with the First International Advisors team at Wells Capital Management. Chris is one of five senior members of the investment team that forms the Senior Strategy Team. His responsibilities include macro-portfolio allocation, portfolio positioning, and risk management. He joined First International Advisors in 2011 from JP Morgan Chase, where he served as a senior investment manager specializing in global fixed income strategies. Earlier, Chris served as a senior fixed income trader at Fidelity International. He began his investment industry career in 1997 as a Graduate Analyst at Morgan Stanley. Chris earned a B.A. (Hons) in business studies at Staffordshire University (UK).

Peter Wilson

Mr. Wilson is a managing director and senior portfolio manager with the First International Advisors team at Wells Capital Management. Peter is one of five senior members of the investment team that forms the Senior Strategy Team. His responsibilities include macro-portfolio allocation, portfolio positioning, and risk management. He joined WellsCap from Evergreen Investments, where he served in a similar role since 1989. Previously, he served as treasurer and portfolio manager for Axe-Houghton, vice president at Bankers Trust in London and New York, and portfolio manager at Merchant Bankers Kleinwort Benson Ltd. Peter began his investment industry career in 1978 at international stockbrokers James Capel & Co. He was educated in Canada, Hong Kong, and England.

Noah Wise, CFA

Noah Wise is a portfolio manager for the Wells Capital Management Customized Fixed Income team. Noah joined Wells Capital Management in 2008 as a research analyst and later became a portfolio manager in 2013. Prior to joining WellsCap, Noah worked as a lead market maker for Interactive Brokers. He began his investment industry career as an intern for Capital Financial Services in 2001. Noah earned a bachelor's degree in finance and a master's degree in business administration with an emphasis in securities analysis from the University of Wisconsin, Madison. He has earned the right to use the CFA designation.

Table of Contents

OTHER FUNDS AND ACCOUNTS MANAGED

The following table provides information about the registered investment companies and other pooled investment vehicles and accounts managed by the portfolio manager of the Fund as of the most recent year ended April 30, 2015 for each portfolio manager (except Ashok Bhatia for which the information is as of June 29, 2015).

Ashok Bhatia (as of June 29, 2015)

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 3 | 0 | 0 |
| Total assets of above accounts (millions) | \$ 2,002.3 | \$ 0.0 | \$ 0.0 |
| performance based fee accounts: | | | |

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 0 | 0 | 0 |
| Total assets of above accounts (millions) | \$ 0.0 | \$ 0.0 | \$ 0.0 |

Niklas Nordenfelt

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 4 | 5 | 14 |
| Total assets of above accounts (millions) | \$ 1,375.4 | \$ 226.0 | \$ 1,515.4 |
| performance based fee accounts: | | | |

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 0 | 0 | 0 |
| Total assets of above accounts (millions) | \$ 0.0 | \$ 0.0 | \$ 0.0 |

Philip Susser

| I manage the following types of accounts: | Other Registered Investment | Other Pooled Investment Vehicles | Other Accounts |
|---|-----------------------------|----------------------------------|----------------|
| | | | |

| | Companies | | |
|--|------------|----------|------------|
| Number of above accounts | 4 | 5 | 14 |
| Total assets of above accounts (millions) | \$ 1,375.4 | \$ 226.0 | \$ 1,515.4 |
| performance based fee accounts: | | | |

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|--|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 0 | 0 | 0 |
| Total assets of above accounts (millions) | \$ 0.0 | \$ 0.0 | \$ 0.0 |

Table of Contents**Christopher Y. Kauffman**

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 7 | 0 | 4 |
| Total assets of above accounts (millions) | \$ 5,218 | \$ 0 | \$ 835 |

performance based fee accounts:

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 0 | 0 | 0 |
| Total assets of above accounts (millions) | \$ 0.0 | \$ 0.0 | \$ 0.0 |

Anthony Norris

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 5 | 13 | 12 |
| Total assets of above accounts (millions) | \$ 1,473.14 | \$ 1,166 | \$ 3,029 |

performance based fee accounts:

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 0 | 1 | 0 |
| Total assets of above accounts (millions) | \$ 0.0 | \$ 219 | \$ 0.0 |

Peter Wilson

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 5 | 13 | 12 |
| Total assets of above accounts (millions) | \$ 1,473.14 | \$ 1,166 | \$ 3,029 |

performance based fee accounts:

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 0 | 1 | 0 |
| Total assets of above accounts (millions) | \$ 0.0 | \$ 219 | \$ 0.0 |

Table of Contents**Michael Lee**

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 5 | 13 | 12 |
| Total assets of above accounts (millions) | \$ 1,473.14 | \$ 1,166 | \$ 3,029 |
| performance based fee accounts: | | | |

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 0 | 1 | 0 |
| Total assets of above accounts (millions) | \$ 0.0 | \$ 219 | \$ 0.0 |

Alex Perrin

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 5 | 13 | 12 |
| Total assets of above accounts (millions) | \$ 1,473.14 | \$ 1,166 | \$ 3,029 |
| performance based fee accounts: | | | |

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 0 | 1 | 0 |
| Total assets of above accounts (millions) | \$ 0.0 | \$ 219 | \$ 0.0 |

Christopher Wightman

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 5 | 13 | 12 |
| Total assets of above accounts (millions) | \$ 1,473.14 | \$ 1,166 | \$ 3,029 |
| performance based fee accounts: | | | |

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 0 | 1 | 0 |
| Total assets of above accounts (millions) | \$ 0.0 | \$ 219 | \$ 0.0 |

Noah Wise

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 4 | 1 | 9 |
| Total assets of above accounts (millions) | \$ 2,675.98 | \$ 81 | \$ 722 |
| performance based fee accounts: | | | |

Table of Contents

| I manage the following types of accounts: | Other Registered Investment Companies | Other Pooled Investment Vehicles | Other Accounts |
|---|---------------------------------------|----------------------------------|----------------|
| Number of above accounts | 0 | 0 | 0 |
| Total assets of above accounts (millions) | \$ 0.0 | \$ 0.0 | \$ 0.0 |

MATERIAL CONFLICTS OF INTEREST

The Portfolio Managers face inherent conflicts of interest in their day-to-day management of the Funds and other accounts because the Funds may have different investment objectives, strategies and risk profiles than the other accounts managed by the Portfolio Managers. For instance, to the extent that the Portfolio Managers manage accounts with different investment strategies than the Funds, they may from time to time be inclined to purchase securities, including initial public offerings, for one account but not for a Fund. Additionally, some of the accounts managed by the Portfolio Managers may have different fee structures, including performance fees, which are or have the potential to be higher or lower, in some cases significantly higher or lower, than the fees paid by the Funds. The differences in fee structures may provide an incentive to the Portfolio Managers to allocate more favorable trades to the higher-paying accounts.

To minimize the effects of these inherent conflicts of interest, the Sub-Advisers have adopted and implemented policies and procedures, including brokerage and trade allocation policies and procedures, that they believe address the potential conflicts associated with managing portfolios for multiple clients and ensure that all clients are treated fairly and equitably. Additionally, some of the Sub-Advisers minimize inherent conflicts of interest by assigning the Portfolio Managers to accounts having similar objectives. Accordingly, security block purchases are allocated to all accounts with similar objectives in proportionate weightings. Furthermore, the Sub-Advisers have adopted a Code of Ethics under Rule 17j-1 of the 1940 Act and Rule 204A-1 under the Investment Advisers Act of 1940 (the Advisers Act) to address potential conflicts associated with managing the Funds and any personal accounts the Portfolio Managers may maintain.

First International Advisors

First International Advisors Portfolio Managers often provide investment management for separate accounts advised in the same or similar investment style as that provided to mutual funds. While management of multiple accounts could potentially lead to conflicts of interest over various issues such as trade allocation, fee disparities and research acquisition, First International Advisors has implemented policies and procedures for the express purpose of ensuring that clients are treated fairly and that potential conflicts of interest are minimized.

Wells Capital Management

Wells Capital Management s Portfolio Managers often provide investment management for separate accounts advised in the same or similar investment style as that provided to mutual funds. While management of multiple accounts could potentially lead to conflicts of interest over various issues such as trade allocation, fee disparities and research acquisition, Wells Capital Management has implemented policies and procedures for the express purpose of ensuring that clients are treated fairly and that potential conflicts of interest are minimized.

COMPENSATION

The Portfolio Managers were compensated by their employing sub-adviser from the fees the Adviser paid the Sub-Adviser using the following compensation structure:

First International Advisors Compensation. The compensation structure for First International Advisors' s Portfolio Managers includes a competitive fixed base salary plus variable incentives (First International Advisors utilizes investment management compensation surveys as confirmation). Incentive bonuses are typically tied to pretax relative investment performance of all accounts under his or her management within acceptable risk parameters. Relative investment performance is generally evaluated for 1, 3, and 5 year performance results, with a predominant weighting on the 3-and 5- year time periods, versus the relevant benchmarks and/or peer groups consistent with the investment style. This evaluation takes into account relative performance of the accounts to each account' s individual benchmark and/or the relative composite performance of all accounts to one or more relevant benchmarks consistent with the overall investment style. In the case of each Fund, the benchmark(s) against which the performance of the Fund' s portfolio may be compared for these purposes generally are indicated in the Performance' sections of the Prospectuses.

Wells Capital Management Compensation. The compensation structure for Wells Capital Management' s Portfolio Managers includes a competitive fixed base salary plus variable incentives (Wells Capital Management utilizes investment management compensation surveys as confirmation). Incentive bonuses are typically tied to pretax relative investment performance of all accounts under his or her management within acceptable risk parameters. Relative investment performance is generally evaluated

Table of Contents

for 1, 3, and 5 year performance results, with a predominant weighting on the 3- and 5- year time periods, versus the relevant benchmarks and/or peer groups consistent with the investment style. This evaluation takes into account relative performance of the accounts to each account's individual benchmark and/or the relative composite performance of all accounts to one or more relevant benchmarks consistent with the overall investment style. In the case of each Fund, the benchmark(s) against which the performance of the Fund's portfolio may be compared for these purposes generally are indicated in the Performance sections of the Prospectuses.

BENEFICIAL OWNERSHIP OF THE FUND

The following table shows for each Portfolio Manager the dollar value of the Fund beneficially owned by the Portfolio Manager as of April 30, 2015

| | |
|----------------------|------|
| Ashok Bhatia | none |
| Niklas Nordenfelt | none |
| Philip Susser | none |
| Christopher Kauffman | none |
| Tony Norris | none |
| Peter Wilson | none |
| Michael Lee | none |
| Alex Perrin | none |
| Christopher Wightman | none |

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS

Not applicable.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no material changes to the procedures by which shareholders may recommend nominees to the registrant's Board of Trustees that have been implemented since the registrant's last provided disclosure in response to the requirements of this Item.

ITEM 11. CONTROLS AND PROCEDURES

(a) The President and Treasurer have concluded that the Wells Fargo Advantage Multi-Sector Income Fund (the Fund) disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) provide reasonable assurances that material information relating to the Fund is made known to them by the appropriate persons, based on their evaluation of these controls and procedures as of a date within 90 days of the filing of this report.

(b) There were no significant changes in the Fund's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) that occurred during the second fiscal quarter of the period covered by this report that materially affected, or is reasonably likely to materially affect, the registrant's internal

control over financial reporting.

ITEM 12. EXHIBITS

(a)(1) Not applicable

(a)(2) Certification pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 (17 CFR 270.30a-2(a)) is filed and attached hereto as Exhibit 99.CERT.

Table of Contents

(a)(3) Not applicable.

(b) Certification pursuant to Rule 30a-2(b) under the Investment Company Act of 1940 (17 CFR 270.30a-2(b)) is filed and attached hereto as Exhibit 99.906CERT.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Wells Fargo Advantage Multi-Sector Income
Fund

By: /s/ Karla M. Rabusch

Karla M. Rabusch
President

Date: June 25, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Wells Fargo Advantage Multi-Sector Income
Fund

By: /s/ Karla M. Rabusch

Karla M. Rabusch
President

Date: June 25, 2015

By: /s/ Jeremy DePalma

Jeremy DePalma
Treasurer

Date: June 25, 2015